

Top 5 Broker & Execution Quality Report for 2020

NatWest Trustee & Depositary Services Limited
Dealing & Custody Service



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Introduction

The purpose of this report is to provide a summary of how NatWest Trustee & Depositary Services Limited (NWTDS) has met its Best Execution requirements in 2020, in accordance with the relevant regulation and its Client Order Execution Policy (OEP).

The report provides an overview of the key factors and points which enhanced the order execution process, and of the control and oversight mechanisms in place to ensure the effectiveness of the OEP. The report has been produced in compliance with the Financial Conduct Authority (FCA) Conduct of Business Sourcebook (COBS) rule 11.2.A and the Markets in Financial Instruments Directive (MiFID II) Regulatory Technical Standard 28.

The NWTDS Dealing & Custody Forum (D&CF) has reviewed, acknowledged, and ratified this report.

For the purposes of order execution, NWTDS' clients are classified as Professional Clients unless otherwise agreed.

Equities – Shares & Depositary receipts – all tick sizes

Price and Liquidity have been identified as execution factors of primary importance. It is on this basis we select brokers to execute client orders. These factors allow us to consider the best route to market by performing pre-trade and post-trade analysis, which includes:

- an assessment of what we believe to be the best outcome for clients in terms of the total consideration of the transaction;
- the liquidity available in the market for the relevant instrument;
- such other factors as may be appropriate, including the ability of a broker to manage complex orders, the speed of execution, the creditworthiness of the broker and the quality of any clearing and settlement facilities.
- We use our commercial judgement and experience in light of market information available and take into account the characteristics of the order when determining additional execution factors of importance.

Applying this methodology resulted in the brokers listed below receiving the reported percentages of trade volume from client orders. Brokers will in general execute orders on a regulated market, multilateral trading facility or organised trading facility; they may also execute over-the-counter or as principal.

NWTDS has no close links, conflicts of interest or common ownership with any of our equity brokers. Conflicts of interest are governed by our Conflicts of Interest Policy and monitored internally, specifically through the Dealing & Custody Forum.

NWTDS' arrangements with brokers are structured in a way that there is no monetary incentive to favour any particular broker over another. NWTDS has agreed with all of its brokers to charge a common brokerage charge for equity products and this is a condition of being on NWTDS' Execution Broker list. These charges are benchmarked with the market place for firms of a similar size to NWTDS and reviewed annually. This process is supported by externally sourced independent market research. From time to time, NWTDS will negotiate bespoke brokerage charges for larger size orders and will take this into account when considering the total consideration.

NWTDS does not receive any rebates or material non-monetary benefits from any broker.

The overall performance of all brokers was reviewed in October 2020 as part of a semi-annual broker performance review process. None of the existing broker relationships was deemed to be materially underperforming versus other competitor brokers who are not on our Execution Broker list.

One broker for Equity Instruments was removed from the Execution Broker list in 2020. There was no evidence that this broker was failing to meet our best execution requirements.

To fulfil certain client orders – for example large size orders – particular attention may need to be paid to liquidity, i.e. the ability to execute the order in a way that limits as far as possible any negative impact on the total consideration. Where this approach has been applied our monitoring has concluded that all results have met our best execution requirements.

NWTDS uses a Transaction Cost Analysis Tool (TCAT) to monitor and evaluate the best execution results for all client orders. The use of TCAT allows us to monitor and benchmark each single client order from placement to execution. TCAT provides results that allow us to categorise the results and identify executions that did not achieve prices inside set parameters. Executions outside these parameters are reviewed and highlighted in BERF by an operational team independent of the execution team with

identified executions further investigated and remediated if necessary. Further independent oversight and challenge is provided by our Compliance function.

TCAT is provided by a Data Reporting Service Provider (consolidated market price, volume and liquidity information) for the pre- and post-trade execution performance analysis for all exchange traded instruments.

Equities – Shares and Depositary Receipts: Tick size liquidity bands 5&6					
Notification if < 1 average trade per business day in the previous year - YES					
Top 5 execution brokers ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as a percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Winterflood Securities 8BRUP6V1DX3PIG2R0745	50.00%	50.00%	N/a	N/a	0.00%
UBS 549300WOIFUSNYH0FL22	50.00%	50.00%	N/a	N/a	0.00%

* note that only 2 brokers were engaged during the 2020 reporting period.

The tables above illustrate how our equities trading are split into the three categories prescribed under MiFID.

Percentage of passive and aggressive orders – the type of order placed on the market:

- Passive – when liquidity is provided to the market.
- Aggressive – when liquidity is removed from the market.

NWTDS will always leave this category blank as we do not provide or remove liquidity directly from the market.

Glossary

Agent: A firm trading for the account and on behalf of a client

Close links: Close Links exist where legal or natural persons are linked by economic participation or ownership (where 20% or more of the whole), or for any controlling relationship (e.g. that which exists between a parent undertaking and a subsidiary).

Data Reporting Service Provider: An organisation providing the service of collecting post-trade transparency data of specific financial instruments from regulated markets, multilateral trading facilities, organised trading facilities, approved reporting mechanisms, approved publication arrangements & consolidated tape providers

Debt Instruments: This includes fixed income instruments, bonds and money market instruments, such as government bonds, corporate bonds, inflation-indexed bonds, short dated bills, high yield bonds, zero-coupon bonds, floating rate notes, convertible bonds (including contingent convertible bonds (CoCo's), asset-backed securities, subordinated bonds, perpetual bonds, municipal bonds, retail bonds.

Eligible Counterparty: An Eligible Counterparty is an entity that is authorised or regulated to operate in the financial markets. Eligible Counterparties receive the lowest level of protection under MiFID and may not necessarily have the same rights as other categories of client under the Financial Ombudsman Service and the Financial Services Compensation Scheme.

Equity: Equities represent an ownership interest in a company, and are typically referred to as 'shares'.

Exchange Traded Products: Exchange Traded Products (ETP) is the collective term used when describing Exchange Traded Funds (ETF), Exchange Traded Commodities (ETC) and Exchange Traded Notes (ETN). ETF's are funds that track an index or a basket of assets like an index fund, but trades like a stock on an exchange. These may invest in Derivatives or the physical underlying of the index/basket itself. ETC's are designed to track the performance of a single commodity or a commodities index. These are typically issued by special purpose vehicles which may invest in Derivatives or the physical commodity itself. ETN's are debt securities traded on an exchange, designed to track the performance of a market index. These are typically issued by financial institutions and unsecured, therefore involve Counterparty Risk. ETP's trade intra-day on exchange and will experience price changes as they are bought and sold.

Execution Broker: The entity with or through whom we execute Client Orders, Further details of the arrangements for each type of investment are set out in the relevant section of the report.

Financial Conduct Authority: An independent non-governmental body, given statutory powers by the Financial Services & Markets Act 2000, which regulates the financial services industry in the UK.

MiFID: Means the Directive 2014/65/EU of the European Parliament and the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast). The Directive has been effective since 3 January 2018.

Principal: A firm which is trading on its own account either on its own behalf or on behalf of the client.

Professional Clients: Professional Clients includes entities not classified as Eligible Counterparties, which are authorised or regulated to operate in the financial markets. Professional Clients will receive a lower level of protection than Retail Clients. Professionals may not necessarily have the same rights as Retail Clients under the Financial Ombudsman Service and the Financial Services Compensation Scheme.

Rebates: Monetary return of a portion of a transaction or value of goods within a specified period.

Regulated Market: Multilateral system, other than an MTF, operated and/or managed by a market operator which brings together or facilitates the bringing together of multiple third-party buying and selling

in Financial Instruments in a way that results in a contract, in respect of the Financial Instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of MiFID.

Retail Client: The MiFID Retail Client category is the classification that offers the most protection and imposes the most requirements in terms of communication, disclosure and transparency. Retail Clients are clients that do not belong to the Professional Client or Eligible Counterparty categories.

Structured Investment Product: A type of investment specifically designed to meet a defined financial objective by customising a group of Financial Instruments (including Derivatives) with varying terms, pay-outs and risk profiles on a range of underlying assets. These are typically issued by financial institutions as unsecured securities; they therefore involve Counterparty Risk.

TCAT: Transaction Cost Analysis Tool provides pre- and / or post-trade transaction-cost-analysis that allows us to determine context and insight into our trading process and assess transaction costs and trader/broker performance.

Tick Sizes: A tick size is the minimum price movement of a trading instrument. The price movements of different trading instruments vary, with their tick sizes representing the minimum amount they can move up or down on an exchange. A mandatory “tick size” regime has been introduced under MiFID, creating a tick size table with associated liquidity bands/price ranges published by the European Securities and Markets Association. The aim of the tick size regime is to ensure the orderly functioning of the market, and is intended to create a level playing field between the different trading venues.