

MIFID II RTS 28 Report (Execution of Orders) – Professional Clients

In respect of Currency Derivatives

By: The Bank of New York Mellon SA/NV (LEI: MMYX0N4ZEZ13Z4XCG897) (“BNYM”)

For the Period: 1 January 2021 to 31 December 2021 inclusive (“2021 Calendar Year”)

Publication date: 30 April 2022

| <u>A CSV file version of the table below is available from our website</u> | | | | | | | |
|---|-----------------------------------|---|---|------------------------------|---|---|------|
| Class of Instrument | | Currency derivatives: Swaps, forwards and other currency derivatives Annex I paragraph (e) (ii) of Commission Delegated Regulation (EU) 2017/576 | | | | | |
| Notification if <1 average trade per business day in the previous year. | | No | | | | | |
| Top five execution venues 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 the class | Percentage of passive orders | Percentage of aggressive orders | Percentage of directed orders | |
| | Name | LEI | | | | | |
| 1 | The Bank of New York Mellon | HPFHU0OQ28E4N0NFVK49 | 76.75% | 76.75% | Not applicable (this venue does not operate an order book based trading system) | Not applicable (this venue does not operate an order book based trading system) | 100% |
| 2 | The Bank of New York Mellon SA/NV | MMYX0N4ZEZ13Z4XCG897 | 23.25% | 23.25% | Not applicable (this venue does not operate an order book based trading system) | Not applicable (this venue does not operate an order book based trading system) | 100% |
| 3 | None | | | | | | |
| 4 | None | | | | | | |
| 5 | None | | | | | | |
| Total for top five execution venues: | | | 100.00% | 100.00% | | | |

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| Notes to accompany the Report | |
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| | <p>A. Basis of the Report:</p> <p>This report (“Report”) is published by BNYM solely to comply with its obligations under Commission Delegated Regulation (EU) 2017/576 and article 27(6) of Directive 2014/65/EU, as implemented (collectively, “MIFID II RTS 28”). The terms “passive orders”, “aggressive orders” and “directed orders” shall have the meanings assigned to them under MIFID II RTS 28.</p> <p>MIFID II RTS 28 requires investment firms which execute client orders to summarise and make public on an annual basis, for each class of financial instruments, the top five execution venues in terms of trading volumes where they executed client orders in the preceding year and information on the quality of execution obtained in prescribed content and format. This Report has been prepared based on client orders executed by BNYM in the 2021 Calendar Year.</p> <p>Nothing in this Report shall be construed or relied upon by any person as a recommendation by BNYM or any of its affiliates of any execution venues or entities identified in the Report and BNYM and its affiliates disclaim any and all liabilities and losses arising from any such reliance to the fullest extent permitted by law.</p> |
| | <p>B. Summary of our Analysis and Conclusions on the Quality of Execution</p> <p>Articles 3(a) to (h) of Commission Delegated Regulation (EU) 2017/576 require investment firms to publish for each class of financial instruments, a summary of the analysis and conclusions they draw from their detailed monitoring of the quality of execution obtained on the execution venues where they executed all client orders in the previous year.</p> <p>In respect of currency derivatives (“FX Derivatives”) orders executed in the 2021 Calendar Year:</p> <p>a. An explanation of the relative importance BNYM gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution</p> <p>In taking all sufficient steps to obtain the best possible result for its clients, BNYM took into account the various execution factors including, price, costs, speed, likelihood of execution and any other relevant consideration, which BNYM prioritised in accordance with execution criteria including, but not limited to, characteristics of client, specific instructions on the order, currency pairings and market conditions. Client orders in FX Derivatives in liquid¹ currency pairings had different ranking of execution factors when compared to other currency pairings. BNYM used its commercial judgement and experience in light of available market information and its understanding of particular client to achieve the appropriate balance of priorities across a range of execution factors. If no specific instructions were received to the contrary, then price was usually considered the most significant execution factor, followed by the speed of execution and then the size of the order. This was particularly the case for FX Derivatives in liquid currency pairings. In certain situations where the market for a particular currency or currency pairing was volatile, illiquid or the order was of a large size, BNYM have determined in certain cases that the full execution or the likelihood of execution was more important to the client than the price. Additionally, in times of market disruption or in the event of a system outage, BNYM have prioritised speed of execution and certainty of execution and settlement over price.</p> <p>¹ BNYM treats liquid currencies to be G20 currencies, CHF, SGD, HKD, NOK, DKK and SEK.</p> |
| | <p>b. A description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders</p> <p>The data contained in this Report only relates to client orders where BNYM had determined that best execution obligations were owed.</p> |

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| <p>BNYM is a market maker and dealer in FX Derivatives and BNYM transacted with clients in principal capacity (“Principal Model”). However, for certain currency administration service agreements, the clients have contracted with BNYM to execute FX Derivatives on their behalf with The Bank of New York Mellon (“Service Model”). Apart from the Service Model, clients directed their orders to BNYM as a dealer and BNYM was the principal counterparty to the resultant transaction. Therefore, all orders on this Report were directed orders of the clients either to BNYM or to The Bank of New York Mellon.</p> <p>The Bank of New York Mellon and The Bank of New York Mellon SA/NV are wholly owned subsidiaries of The Bank of New York Mellon Corporation. The Bank of New York Mellon is directly owned by The Bank of New York Mellon Corporation. The Bank of New York Mellon SA/NV is a wholly owned subsidiary of The Bank of New York Mellon through 99.99% direct ownership and 0.01% indirect ownership through BNY International Financing Corporation.</p> <p>In respect of the Service Model, no conflict of interest arose in the context of BNYM executing the clients’ orders with The Bank of New York Mellon as the clients did not rely on BNYM to select The Bank of New York Mellon as the execution venue or negotiate the price or other terms of the transaction. Hedging parameters, pricing methodology, execution venue and other important elements of the Service Model transactions including remuneration for the service were agreed in advance with the clients. BNYM ensures that the orders were executed in accordance with the relevant service agreement. Any other potential conflicts of interest between BNYM’s own interests as an execution venue and a client’s interests were managed in accordance with BNYM’s conflict of interest policy.</p> |
| <p>c. A description of any specific arrangements with execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received</p> <p>BNYM had no such specific arrangement with The Bank of New York Mellon apart from the Service Model. Under the Service Model, The Bank of New York Mellon collected from the client certain remuneration due to BNYM under the Service Model and remitted an equivalent amount to BNYM. Such remuneration was as agreed between BNYM and the client under the relevant service agreement.</p> |
| <p>d. An explanation of the factors that led to a change in the list of execution venues used in BNYM’s execution policy if such a change occurred</p> <p>Apart from the Service Model, clients had not documented nor authorised BNYM to execute FX derivatives orders on their behalf with a third party, and consequently BNYM was the sole execution venue for all FX Derivatives executed in 2021 Calendar Year.</p> |
| <p>e. An explanation of how order execution differs according to client categorisation, where the firm treats categories of clients differently and where it may affect the order execution arrangements</p> <p>All professional clients to whom BNYM determined that best execution obligations were owed were treated consistently in terms of BNYM’s order execution arrangements. BNYM do not provide investment services to retail clients.</p> |
| <p>f. An explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client</p> <p>Not applicable as BNYM do not provide investment services to retail clients.</p> |
| <p>g. An explanation of how BNYM has used any data or tools relating to the quality of execution, including any data published under Commission Delegated Regulation (EU) 2017/575</p> <p>BNYM relied on prices sourced from various market makers, liquidity providers and brokers for purposes of price construction and price validation.</p> |

For post trade best execution monitoring, BNYM uses a system called Panopticon which is an in house platform used for trade surveillance and for FX Derivatives best execution monitoring.

Panopticon raises exceptions alerts where pre-defined threshold limits are breached and best execution may not have been achieved. These threshold limits are pre-configured by BNYM for specific currencies based on volume, liquidity and accessibility (e.g. G10, G20, emerging markets and restricted currencies). The threshold limits are reviewed at least on an annual basis, or when determined to be necessary by the Markets Control Team or Compliance. An Order Execution Forum (“OEF”) is held monthly and attended by the Business (front office execution), Compliance (providing second line of defence oversight and challenge) and Markets Control Team staff. Any procedural, tolerance or control changes to the best execution monitoring and delivery process must be approved by the OEF before being adopted.

Panopticon receives a daily file containing all transactions on a daily basis and also ingests market data from external and internal sources (such as Bloomberg and Reuters). The system ingests the file and analyses all transaction data against pre-defined thresholds. Transactions that do not appear to be at the correct market rates are highlighted through exception reports which are then reviewed by dedicated staff within the Markets Control Team. All exception reports are reviewed and investigated to identify any potential pricing that may need to be adjusted. All investigations are documented through a case management tool and each exception alert closure is fully documented. Investigations that cannot be resolved by the Markets Control Team are escalated to the execution desk for review and the Markets Control Team challenge explanations to ensure the client received a satisfactory outcome. Investigations are also escalated to Compliance, where necessary, for further review and Compliance additionally independently provides quality assurance review for a sample of alert closures. All alerts that result in a genuine best execution exception are escalated to the Order Execution Forum (OEF). The Markets Control Team also provides statistics for the number and type of alerts to the monthly OEF and provides detailed analysis for any escalations

Following suspension by EU MIFID Quick Fix (Directive (EU) 2021/338) of the requirement on execution venues to publish quarterly execution quality data under Commission Delegated Regulation (EU) 2017/575 (“RTS 27”) for 2 years from 27 February 2021, RTS 27 reports of other execution venues (if any were published in the 2021 Calendar Year) were no longer used for purposes of comparing BNYM’s performance as an execution venue. However, as referred to above, the Panopticon tool used by BNYM validates all trades against relevant market data to ensure clients were priced appropriately. In addition, BNYM regularly reviews its pricing sources to support its market making activities.

h. Where applicable, an explanation of how the investment firm has used output of a consolidated tape provider established under Article 65 of Directive 2014/65/EU.

There was no consolidated tape provider data available in the market in 2021 Calendar Year to provide comparative analysis of quality of execution of FX Derivatives obtained on BNYM.