

## 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 2019 to 31 December 2019 inclusive (“2019 Calendar Year”)

Publication date: 30 June 2020

<b><u>A CSV file version of the table below is available from our website</u></b>							
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	HPFHU00Q28E4N0NFVK49	73.23%	80.15%	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	26.77%	19.85%	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

### **A. Basis of the Report:**

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.

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 2019 Calendar Year.

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.

### **B. Summary of our Analysis and Conclusions on the Quality of Execution**

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.

In respect of currency derivatives (“**FX Derivatives**”) orders executed in the 2019 Calendar Year:

#### ***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***

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 liquid<sup>[1]</sup> 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.

<sup>1</sup> BNYM treats liquid currencies to be G20 currencies, CHF, SGD, HKD, NOK, DKK and SEK.

**b. A description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders**

The data contained in this Report only relates to client orders where BNYM had determined that best execution obligations were owed.

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.

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.

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.

**c. A description of any specific arrangements with execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received**

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.

**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**

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 2019 Calendar Year.

**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**

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.

**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**

Not applicable as BNYM do not provide investment services to retail clients.

**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**

BNYM relied on prices sourced from various market makers, liquidity providers and brokers for purposes of price construction and price validation.

For post trade best execution monitoring, BNYM uses the CONTROL centre which is an in house trade surveillance and transaction cost analysis tool for FX Derivatives best execution monitoring.

CONTROL centre tool 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 Order Execution Forum (OEF). The OEF is held monthly and attended by the business (front office execution), compliance (providing second line of defence oversight and challenge) and control function staff. Any procedural, tolerance or control changes to the best execution monitoring and delivering process must be approved by the OEF before being adopted.

BNYM sends a data file to the CONTROL centre at the end of each trading day. The CONTROL centre runs reports using pre-defined thresholds against market data (sourced by CONTROL centre from Reuters and Bloomberg). On the following day (T+1), CONTROL centre generates potential best execution exception reports to the business control function (which is separate from the front office staff that handles client orders) flagging alerts which have exceeded the pre-defined thresholds. The control function would investigate any alerts generated by identifying the execution desk responsible for the trade and accessing the trade record. The control function would check the trade details such as any margin applied and time of trade input. A typical example of an "off-market price" alert would be for an FX benchmark price order where a client's execution for the 4 pm fixing will only be booked on BNYM systems when the benchmark provider publishes its fixing rates several minutes after the fixing period has ended. If the market price has moved in the interim period between 4 pm fixing and the booking of the trade, CONTROL centre could flag that trade as being off-market. The control function would check that the correct fixing price was applied before closing the alert. If, on the other hand, the control function concludes that best execution was not provided, they would escalate the incident to the business (execution desk) and/or compliance depending on the severity for review and resolution. CONTROL centre alerts that result in a genuine best execution exception will be escalated to the Order Execution Forum (OEF). The control function provides statistics for the number and type of alerts to the monthly OEF and provides detailed analysis for any escalations

In respect of quarterly data published by execution venues in the 2019 Calendar Year under Commission Delegated Regulation (EU) 2017/575 ("RTS 27"), BNYM has found that the majority of execution venues had not published their RTS 27 data in a consistent or complete manner and this had created significant challenges in our ability to use the available data for meaningful comparisons against BNYM's performance as an execution venue. However, as referred to above, apart from RTS 27 data, the BestX tool used by BNYM provides relevant market data which are used as benchmarks for BNYM's post execution monitoring. BNYM regularly reviews its pricing sources to support its market making activities against the BestX benchmarks.

**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 2019 Calendar Year to provide comparative analysis of quality of execution of FX Derivatives obtained on BNYM.