

# **BofA Securities**

## **Information on Order Execution for Asia Pacific Equities**

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**Notice to Recipients**

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## 1. Introduction

This document outlines a framework for the principles and practices adopted by BofA Securities APAC Equities when executing orders on behalf of clients in markets across Asia Pacific to the extent applicable.

For equities execution (excluding futures and options) in Australia, Japan and India, relevant BofA Securities local entities maintain specific best execution policies and procedures in accordance with local regulatory standards. These are set out in Appendix C.

## 2. Scope & Application

BofA Securities owes a duty of best execution to its client when it has either:

- (i) Received and accepted an order in respect of a financial instrument (as set out in Appendix A) and BofA Securities is either:
  - Executing the order on behalf of the client, either by dealing as principal or as agent; or
  - Arranging transactions, including passing the order or acting as manager and placing the order to a broker for execution.

or

- (ii) Provided a quote in response to a request-for-quote (“RFQ”) in respect of a financial instrument and the client is legitimately relying on BofA Securities to obtain the best possible result. In this regard, the following four factors will apply to determine whether the client is legitimately relying on BofA Securities to obtain the best possible result:
  - Whether the client initiated the transaction or vice versa;
  - The market practice for the product and existence of a convention for the client to “shop around”;
  - The levels of price transparency within the relevant market; and
  - Any disclosure made to the client that no best execution is provided.

The best execution obligation applies to in-scope RFQs and client orders taken by BofA Securities’ employees in the course of carrying out regulated investment business on behalf of the BofA Securities entities that are in scope.

## 3. What is best execution and order handling?

- The Hong Kong Securities and Futures Commission and other APAC regulators require that BofA Securities must establish and implement effective arrangements for complying with the obligation to take all sufficient steps to obtain the best possible result for its clients when executing client orders or routing or placing client orders to other entities, including affiliates or other third party brokers, or when executing in response to a client RFQ where there is legitimate reliance. In particular, BofA Securities is required to establish and implement an order execution policy to maintain consistency in handling its client orders to achieve the best possible result in complying with the obligation.
- A separate but related obligation is to implement procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders.

## 4. How does BofA Securities satisfy the best execution obligation?

- This summary sets out what BofA Securities is required to do in order to take all sufficient steps to obtain the best possible results for its clients.

In practical terms, this means in order to select execution venues, trading strategies or trading parameters which consistently deliver best execution, the various execution factors listed in the Execution factors section below should be considered. When BofA Securities is receiving and transmitting orders, the execution venues will include its affiliate brokers or the third party brokers that BofA Securities passes the orders on to.

## 5. When is BofA Securities executing or arranging client orders?

BofA Securities will be executing client orders:

- When it is acting on behalf of a client either as agent or principal.
- Where it carries out an order for a client on a back-to-back principal basis (i.e. when BofA Securities buys a financial instrument from a third party (or the client) and then sells the same financial instrument to the client (or a third party) without taking any market risk).
- Generally, when a client is relying on BofA Securities to protect its interests in relation to the pricing and other elements of the transaction (which may include the hedging of such transaction) that could be affected by BofA Securities's involvement in carrying out the order.

Note: For orders in respect of a financial instrument (as set out in Appendix A), BofA Securities will be executing a client order if the client is relying on BofA Securities to protect its interests with regard to price and the overall outcome of execution.

BofA Securities will be arranging client orders:

- Where it transmits client orders to other entities, such as third party brokers, for execution. In this situation BofA Securities is providing the service of receiving and transmitting an order on behalf of the client.
- Where it is placing client orders with third party brokers for execution.

When transmitting client orders to third party brokers for execution, BofA Securities is responsible for taking all sufficient steps to ensure that the third party provides for the best possible result in order to satisfy its best execution obligation for BofA Securities' underlying clients.

Where a BofA Securities desk needs to pass the order to a different BofA Securities desk, the BofA Securities desk which executes the trade is required to take sufficient steps to achieve the best possible outcome for the client. The BofA Securities desk passing the order must ensure that the executing desk receives such information as is necessary in order for them to take sufficient steps.

## 6. What are the execution venues?

Client orders may be executed, routed or placed via the following different types of venues available to BofA Securities. Note that not all of the venues in the list below will be utilized by every business line – the venues used by specific businesses will be determined by the requirements of the business:

- Regulated public exchanges
- Venues having “Proprietary Trading System” Status (PTSs) or equivalent
- Alternative liquidity (or dark) pools operated by public exchanges and/or BofA Securities or third parties
- Broker dealers, third party brokers and market makers (which may be affiliates of BofA Securities or third parties)

BofA Securities may execute client orders over the counter (OTC) away from public exchanges. For such OTC securities transactions, we will communicate to you that they were executed OTC by publishing “XOFF” in FIX Tag 30 (Last Market). Please note that there may be scenarios where it is not possible to publish XOFF in FIX Tag 30, for example where an order has been subject to aggregation or if you do not currently have FIX connectivity. Please speak to your BofA Securities contact if you have any questions or wish to confirm the relevant venue for your transaction/s.

BofA Securities will select an execution venue based primarily on the availability of best pricing for a particular instrument and the amount of accessible liquidity offered by the execution venue. In certain instances, clients will instruct BofA Securities to route their orders to a particular venue, use certain order types or access certain liquidity events (e.g. auctions or listed derivatives which only trade on a single market). As additional execution venue selection criteria, BofA Securities will consider the overall technical and operational offering of a venue – including connectivity, speed of execution, reliability, rule set and membership and clearing requirements, as well as the costs of accessing the venue.

For certain instruments there may only be one execution venue available – in executing a trade in such circumstances BofA Securities will assume that the selection of that venue where applicable satisfies the best execution consideration dealing with venue selection.

When executing orders or taking the decision to deal in OTC products including bespoke products, BofA Securities will check the fairness of the price proposed to the client, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products. There are consequences of executing outside a public exchange, including counterparty risk. You are able to request additional information from BofA Securities concerning the consequences of transactions being executed outside a public exchange.

BofA Securities will not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would ultimately be to the detriment of the client. BofA Securities does not charge different fees depending on the execution venue, unless otherwise agreed with the client.

BofA Securities will, on a regular basis, review the execution venues of which BofA Securities is a member of or has access to/sends orders to (including third party brokers and its affiliates) to ensure that the use of such venue, broker or affiliate and the manner in which they are accessed continues to deliver the best possible result for BofA Securities' clients.

For further information on execution venues currently used by BofA Securities in markets across Asia Pacific, please speak to your BofA Securities contact.

## 7. Execution factors

In general, BofA Securities takes all reasonable steps to obtain the best possible result for its clients when handling and executing client orders. Factors which BofA Securities takes into consideration when executing client orders with the aim of achieving the best possible result for clients on a consistent basis include:

- Price
- Likelihood of execution
- Size of the transaction
- Costs (implicit and explicit)
- Speed of execution
- Nature of the order
- Any other considerations relevant to the execution of an order, e.g. prevailing market conditions in the instrument

The importance of each execution factor in the execution process will vary relatively depending on the financial instrument being traded, the type of client, the characteristics of the client order, the expressed preferences or instructions from the client, their objectives and the nature of the markets or execution venues available to BofA Securities.

See Appendix B for the process by which BofA Securities will determine the importance of the execution factors for the relevant financial instruments.

## 8. Use of brokers (including BofA Securities affiliates and third party brokers)

BofA Securities may execute client orders via another broker, including an affiliate of BofA Securities or a third party broker, for a number of reasons, including but not limited to the following:

- The client may want to place an order in a market where BofA Securities is not a member.
- Regulation in a jurisdiction may prohibit BofA Securities from executing the order directly into the market in that region or requires BofA Securities to use an affiliate in that market.
- A system error or limitation exists which may prevent the BofA Securities trader/sales trader from going to the venue directly.

The obligation to provide best execution applies to all types of financial instruments set out in Appendix A. Therefore, BofA Securities will require its affiliates and other third party brokers to evidence that they are providing BofA Securities with best execution on a consistent basis in line with any requirements under the BofA Securities best execution

framework and considering the protections offered by equivalent regulations in relevant jurisdictions.

#### 9. When does best execution not apply or apply only on a limited basis?

Best execution obligations do not apply or apply only on a limited basis in the following situations:

##### **Specific Instructions:**

When BofA Securities is following specific instructions from the client on an order, BofA Securities will satisfy the obligation of best execution by executing the order following the client's specific instruction to the extent that the instruction covers all aspects of the execution. The best execution obligation will apply to any other parts or aspects of the order that are not covered by such instruction.

Where not all aspects of execution are covered by the instruction, BofA Securities will execute the order to obtain the best possible result in light of the instruction, although any specific instruction may lead or necessitate BofA Securities to reconsider the degree of importance attached to the execution factors and the execution venues where applicable.

**The receipt of specific instructions may affect the relative importance assigned to the various execution factors and prevent BofA Securities from taking the steps it has designed and implemented to obtain best execution in respect of the elements covered by those instructions.**

If a client chooses to execute an order via Direct Market Access ("DMA") or Sponsored Access ("SA") and not via the Smart Order Router ("SOR") it is usual for the client to select the specific parameters of the trade (e.g. price, size, venue, nature of order type etc) and thus in this situation, BofA Securities will be treated as having satisfied its duty of best execution provided we follow the specified parameters and the client will be assumed to have given specific instructions for the entirety of their order via the DMA/SA system. For those DMA/SA orders where the client does not select certain parameters and BofA Securities is required to exercise certain discretions, BofA Securities will select those parameters as far as reasonably possible in order to obtain the best possible result in accordance with the client's instructions.

##### **Request for Quote ('RFQ') and Market Making:**

When BofA Securities only provides liquidity or makes markets by providing prices on an RFQ basis, either by publishing electronically or responding to an RFQ or by negotiating a price, BofA Securities will not owe best execution unless the client is legitimately relying on BofA Securities to protect their interests in relation to the execution factors. See section on Scope & Application above for details of when an RFQ will be deemed in scope.

Note that where an RFQ is given in relation to a specific part of the client business and the RFQ is deemed out of scope after having considered the four factors listed in section 2(ii) above, best execution obligations may still apply to other aspects of the trading.

For more guidance on how the relevant best execution factors are considered when handling client orders in respect of different financial instruments, please see Appendix B.

**10. Is there a requirement to demonstrate best execution?**

At a client's request, BofA Securities will demonstrate that it has executed the client orders in accordance with its order execution policy. BofA Securities will retain documentary records of all client requests to demonstrate best execution, as required.

**11. Aggregation of client orders**

BofA Securities may aggregate orders from the same client or aggregate orders from different clients provided that it is consistent with the obligation of fair treatment of clients and it is unlikely that aggregating the orders will work to disadvantage any of the client orders.

**12. Governance and review process**

BofA Securities APAC Equities maintains an Asia Pacific Execution Governance Council (AEGC) to review on an ongoing basis BofA Securities' governance framework and order execution arrangements in Asia, covering relevant policies, procedures, systems and reporting, including the BofA Securities Information on Order Execution for Asia Pacific Equities and the scope of the best execution obligation.

The AEGC includes representation from Electronic Trading Desk, High Touch Desk, Portfolio Trading Desk, Product Management, Technology, Legal, Global Compliance and Operational Risk and other support/control functions. Its remit includes best execution, order handling and routing practices, execution venue selection, operation and supervision of our broker crossing network Instinct X®, product and service evolution, and electronic trading risk controls, with a mandate to ensure consistent application of guidelines and processes across the APAC Equities electronic trading platform and to act as an escalation and discussion forum for related issues.

## Appendix A

List of financial instruments covered by this document.

### Financial Instruments

- Transferable securities;
- Units in collective investment undertakings;
- Exchange traded futures and options, swaps, structured products and any other derivative contracts relating to securities or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.

## Appendix B

List of execution factor weightings/best execution considerations by financial instruments and nature of execution discretion being exercised.

### Equity and Equity-like Instruments

#### i) Choice of Execution Strategy

When BofA Securities is afforded discretion over how best to execute an order, we will do so in the manner we expect to achieve the best possible result for the client in light of the characteristics of the order, the execution instructions, and their understanding of the client's objectives and preferences.

The predominant factors they should take into consideration are:

- Price and Likelihood of execution – giving consideration to the nature of the order, to the client's objectives and execution instructions, and to market conditions and liquidity in the instrument, exercise judgment as to which method of execution is likely to be most advantageous for the client in respect of execution price and likelihood of execution.

#### ii) BofA Securities' Smart Order Router (SOR)

In Asia Pacific, the SOR accesses public exchanges, alternative liquidity (or dark) pools operated by public exchanges and/or BofA Securities or third parties.

In terms of achieving best execution when executing client orders via the SOR the predominant considerations captured in the SOR logic are: execution price, fill rate/certainty, price improvement opportunities and market impact.

When routing a marketable ('aggressive') order, the following execution factors are primary considerations:

- Price - which execution venue(s) offer the best available price (considering anticipated market impact and any potential for price improvement);
- Likelihood of execution – which execution venue or combination of venues with best price offer the greatest certainty of execution for the given order size (including potential impact on ability to execute any residual quantity on advantageous basis); and
- Cost – where multiple venues offer equivalent price and likelihood of execution, the SOR will consider cost (e.g. venue fees) as an additional factor.

When routing a non-marketable (passive) limit order the following execution factors are primary considerations:

- Likelihood of execution – which venue or combination of venues is expected to offer the greatest likelihood of execution; and
- Size and Market Impact – the size of an order, in absolute terms or relative to market liquidity is important in the SOR's determination of how many venues to represent an order in.

In considering which venues to connect to, BofA Securities gives consideration to factors including expected performance and liquidity, reliability of operations and infrastructure, ease of access/connectivity, performance as measured by public execution data, level of service and responsiveness, frequency of errors and effectiveness of corrective measures and explicit costs.

### iii) **Algorithmic Trading Strategies in Asia Pacific**

BofA Securities Equities offers a suite of algorithmic trading strategies which access markets via the Smart Order Router. These algorithms are designed to execute orders in accordance with a specified strategy and to target specific price and/or liquidity benchmarks, whilst seeking to minimize market impact. The algorithms will balance the use of lit and dark venues and order types depending on the selected strategy and parameters.

- Examples of price benchmarks include the order arrival price, the interval-VWAP, and the closing price.
- Examples of liquidity benchmarks include the participation rate and the balance of executions by type of venue or phase of trading.

Users of the algorithms can specify parameters that tailor the behavior of the algorithms more closely to their particular preferences. Certain parameters may amend or override the default venue-selection logic of the Smart Order Router.

The performance of algorithms against their intended benchmarks is subject to ongoing monitoring. This monitoring facilitates the ongoing development/enhancement of the algorithms, and the provision of feedback to users on how to optimize their usage of the algorithms and specified parameters.

BofA Securities are continually striving to make incremental performance enhancements across our execution platform. In doing so, BofA Securities may occasionally perform “A-B” trials on proposed algorithmic trading strategy performance enhancements using a subset of algorithmic trading flow ahead of rolling out such enhancements across the wider algorithmic trading platform. Please speak to your BofA Securities contact if you have any questions on this process.

### iv) **DMA and Sponsored Access**

If a client chooses to execute an order via Direct Market Access (DMA) not via the Smart Order Router (‘SOR’) it is usual for the client to select the specific parameters of the trade (e.g. price, size, venue, nature of order type etc). In this situation, BofA Securities will be treated as having satisfied its duty of best execution as the client will have provided specific instructions for the entirety of their order via the DMA/SA system. Please refer to Section 9 above under “Specific Instructions”.

### v) **Exchange Traded Funds (“ETFs”)**

Where the client has given discretion to BofA Securities as to how to execute its order, a best execution obligation exists. In such instance the following relevant execution factors will be taken into primary consideration:

- Price – screen bid offer and depth;
- Likelihood of execution – the liquidity of the underlying is important when considering how to execute an ETF order;
- Market conditions of the instrument – closing and intraday net average volume is a relevant consideration, as are the volatility of the underlying and the likelihood of two-way flow.

Other relevant factors may also be considered as BofA Securities deems appropriate.

In the case of an agency ETF order, BofA Securities’ hedge is subject to the best execution obligation, the reason for this being the pricing of the ETF is contingent on the cost of the underlying hedge.

When trading ETFs on a pure request for quote basis, given the prices are available on screen and the client has the option to reject our price and trade away, as such filling the client at their selected on screen price will satisfy any best execution obligations.

### vi) **OTC Derivatives and Structured Products**

OTC derivatives, traded either on a flow basis or as the structured financial derivative instruments such as structured notes, are bilateral contracts that are arranged through negotiation, with a quote or price provided to the client, often on a reverse enquiry basis. A client will decide whether to transact with BofA Securities on the basis of that quote/price and as a consequence, BofA Securities does not consider that in this situation it has received a client order unless a client has a legitimate reliance on BofA Securities to act on a client's behalf to protect a client's interest.

While entering into OTC derivatives BofA Securities may hedge or assume the risk, in this case the price of the hedge may be used as a reference price for the transaction, BofA Securities will seek to obtain best execution on the underlying hedge subject to any specific instruction. In particular, where clients are trading single name swap or similar access products in OTC format and these take into account the price achieved on the underlying hedge, BofA Securities will seek to obtain best execution on the underlying hedge and provide indicative pricing to clients. Indicative prices may be based on an internal proprietary tool as a result of the internalization of principal hedging orders from BofA Securities' Asia swap trading desks and principal orders from BofA Securities' Asia "central risk book". However, where a third party might execute a trade following communication with a client and that client requests that such trade is given up to BofA Securities as a hedge then BofA Securities may take the price of this "give in" trade into account in the relevant derivative trade with the client to satisfy any best execution obligations.

Additionally, when an element of the client facing trade (e.g. strike, initial price, final price) is determined by reference to a benchmark (e.g. close) at which BofA Securities may, but is not obliged to, choose to attempt to hedge, there is no explicit best execution obligation owed to the client (as there is a specific instruction from the client in terms of the derivative strike to be at the benchmark), but the overriding obligation to ensure market integrity is to be noted.

For complex products, any best execution obligations will be considered for the product in its entirety rather than the individual components of the financial instrument.

**vii) Exchange Traded Futures and Options**

Exchange traded Futures and Options are traded as single exchange contracts, where the client generally provides BofA Securities with a specific instruction regarding which contract they wish to trade. In this situation, BofA Securities will select the single execution venue available based on that specific instruction and will have satisfied any best execution obligation to the extent that the specific instruction covers the entirety of the order/in-scope RFQ.

Where BofA Securities trades a futures block against a client on a principal basis and that futures price is derived from BofA Securities' hedge, or references a benchmark, then the relevant paragraph of the OTC Derivatives and Structured products section above shall apply.

## Appendix C

For Australia, Japan and India, local regulatory standards require the relevant BofA Securities entities to maintain specific best execution policies detailed in this section.

### 1. Merrill Lynch Equities (Australia) Limited Best Execution Disclosure

#### Definitions:

“**ASX Centre Point**” means the ASX function enabling execution of the prevailing midpoint of the best bid and offer on ASX TradeMatch.

“**ASX TradeMatch**” means the ASX Central Limit Order Book.

“**Cboe Australia**” means the financial market operated by Cboe Australia Pty Limited ABN 47 129 584 667

“**MIRs**” means ASIC Market Integrity Rules (Securities Markets) 2017

“**Retail Client**” means a client who is not a Wholesale Client.

“**Wholesale Client**” has the meaning given in section 761G(4) of the Corporations Act 2001 (Cth).

#### 1. Best execution obligations

In accordance with Rule 3.8.1 of the ASIC Market Integrity Rules (Securities Markets) 2017, Merrill Lynch Equities (Australia) Limited (MLEA) has an obligation to take reasonable steps to obtain the best outcome for clients when handling and executing client orders.

#### 2. What is the “best outcome”?

For Wholesale Clients the “best outcome” may be price, costs, total consideration, speed, likelihood of execution or any combination of these outcomes.

#### 3. Specific client instructions

If a wholesale client provides MLEA instructions that are inconsistent with the Market Participant obtaining the best outcome, those instructions must be:

- clear and unambiguous;
- in writing, or if provided to MLEA verbally, recorded and retained for a period of seven years; and
- not contained within the standard terms and conditions of a client agreement provided by MLEA to the client, but which may be standing instructions or specific Order by Order instructions.

MLEA must take reasonable steps to handle and execute the Order or Orders in a way which satisfies the Client’s instructions.

#### *Standing Instructions*

A Wholesale Client may provide a standing instruction to MLEA with the effect of opting out of a best execution requirement.

A standing instruction provided by the Wholesale Client to MLEA must be in writing and is provided by the Wholesale Client in its sole discretion. Any such instruction is effective for a period of 12 months

Note – If MLEA notifies a Wholesale Client that its standing instruction is due to lapse, it does not constitute encouragement or inducement that the standing instruction should be renewed,

#### 4. Client type

Whilst MLEA must comply with best execution obligations applying to Retail Clients and disclose such obligations, MLEA will for the most part deal only with Wholesale Clients and its practices and process developed for the purposes of Chapter 3 of the MIRs have generally been developed for Wholesale Clients.

#### 5. Trading venues and general handling of client instructions

MLEA will place orders on the following trading venues subject to any specific instructions that you may provide, and generally in the order required to effect the best outcome for you:

- ASX Centre Point – orders will be executed via this trading venue where price improvement is available;
- ASX TradeMatch – orders will be executed via this trading venue following a determination of best outcome for a client by MLEA;
- Cboe Australia (Dark & Lit)– orders will be executed via this trading venue following a determination of best outcome for a client by MLEA

MLEA generally automates its order handling via internal systems developed to provide the best outcomes in accordance with its obligations under Chapter 3 of the MIRs. From time to time, MLEA's trading representatives may themselves determine best outcomes (in accordance with MLEA's obligations) having regard to certain client objectives and MLEA may execute such orders on the basis of that determination.

##### *Pre-open and closing session considerations*

The trading hours of the ASX and Cboe vary slightly. Both markets open at 10:00am. However, in respect of market close, Cboe closes at 4:13pm during continuous trading and ASX closes at 4:10pm after a closing auction which lasts for approximately 10 minutes. MLEA routes all orders to the ASX during auction periods.

##### *Market outage*

In the event that one trading venue fails or ceases to offer execution services (for example, due to a technical failure) the submission of orders may be redirected to those trading venues (set out in section 5 above) continuing to operate. Note however that some trading venues may be dependent on others to continuously operate (for example, ASX Centre Point will not operate if ASX Trade-Match is not functioning).

## 2. BofA Securities Japan Co., Ltd. Best Execution Policy

This Best Execution Policy sets forth our policy and execution methods for client execution on the best terms in accordance with the Financial Instruments and Exchange Act (“the FIEA”) Article 40-2, Paragraph 1.

Upon acceptance of a client order for securities listed on a financial instruments exchange in Japan, we will endeavor to execute that order in accordance with the following policy, unless we receive any specific instructions from the client in relation to order execution.

### 1. Securities Covered

The securities subject to this Best Execution Policy are “Listed Share Certificates, etc.,” as prescribed under Article 16-6 of the Financial Instruments and Exchange Act Enforcement Order including but not limited to, stocks, bonds with stock acquisition rights, ETFs (beneficiary certificates in investment trusts), and REITs (investment certificates in real estate investment trusts) and the like, which are listed on a financial instruments exchange in Japan. We do not accept orders for “Tradable Securities” as set forth in Article 67-18 (iv) of the FIEA including, but not limited to, stocks and bonds with stock acquisition rights etc. of Phoenix issues.

### 2. Best Execution Methods

#### Definition of Terms:

- **Proprietary Trading System (PTS):** Alternative trading platform stipulated in Article 26-2-2, Paragraph 7 of the Financial Instruments and Exchange Act Enforcement Order where execution of orders takes place outside of a financial instruments exchange. We route orders to PTSs operated by Japannext Co., Ltd. and Cboe Japan Limited.
- **Dark Pool:** Internal crossing system operated by financial instruments business operators etc. stipulated in Article 70-2, Paragraph 7 of Cabinet Office Ordinance on Financial Instruments Business, etc., which uses electronic information processing to simultaneously determine the terms of transactions or other conditions of transactions or perform similar acts with several parties as a buyer or seller, and excludes PTSs. We provide a crossing system called JP Instinct X® (hereinafter referred to as “Instinct X®”) as a Dark Pool to professional investors stipulated in Article 2, Paragraph 31 of FIEA (hereinafter referred to as “professional investors”). Instinct X® matches clients’ buy and sell orders at or between the prevailing best bid and offer of Tokyo Stock Exchange (hereinafter referred to as “TSE”), and such matched orders are routed to and executed as a cross transaction on TSE’s ToSTNeT.
- **Smart Order Router (SOR):** SOR selects the most favorable venue among multiple venues. Our SOR, called **PRISM**, routes orders to a financial instruments exchange, PTS, or Instinct X® (hereinafter referred to as “financial instruments exchange markets, etc.”) based on its automatic decision. We provide our SOR to professional investors.
- **Latency Arbitrage:** Trading strategy that takes advantage of price fluctuations at financial instruments exchanges, disparities between venues, etc. caused by differences in the time required for order execution as prescribed under Article 124, Paragraph 2-1-(iii) of Cabinet Office Ordinance on Financial Instruments Business, etc.

The following summary sets out our best execution methods.

#### (1) Execution of Orders from Clients Who Use PRISM

Orders will be placed on one of the financial instruments exchange markets, etc. based on PRISM’s automatic decision. Securities eligible for PRISM are Listed Share Certificates, etc. listed on the TSE.

##### (i) Financial Instruments Exchange Markets, etc. of which PRISM Compares Prices<sup>1</sup>:

- (a) TSE
- (b) PTS operated by Japannext Co., Ltd.
- (c) PTS operated by Cboe Japan Limited

<sup>1</sup> Although PRISM routes orders to Instinct X®, it does not compare prices at Instinct X® with prices at other financial instruments exchange markets, etc.

**(ii) Methods and Priority Employed by PRISM for Selecting Financial Instruments Exchange Markets, etc. (Order Routing Rule):**

- (a) PRISM routes orders to the most appropriate financial instruments exchange market, etc. considering the price, probability of execution, liquidity of the market, etc. However, orders from a client who has selected Instinct X® as one of the execution venues in PRISM will first be routed to Instinct X® (limited to when matching in Instinct X® is enabled). Regardless of the above, orders to be executed at the time of TSE's market open or close, or placed with "on open" or "on close" conditions will be routed only to the TSE.
- Price – which financial instruments exchange market, etc. offers the most favorable price (considering market impact and potential for price improvement)
  - Probability of Execution – which execution venue or combination of venues offers the greatest probability of execution (considering the execution probability of any residual quantity); and
  - Liquidity of the Market– the size of an order, in absolute or relative terms compared with the market trading volume
- (b) When multiple financial instruments exchange markets, etc. offer the same most favorable price, orders will be routed in the following order: 1) TSE, 2) PTS operated by Japannext Co., Ltd., and 3) PTS operated by Cboe Japan Limited.

**(iii) Measures against Latency Arbitrage:**

When placing orders of multiple trading units in slices, such orders will be placed to the TSE and PTS(s) simultaneously, and the orders to PTS(s) will be placed as IOC orders (Immediate or Cancel order: an order that will expire if it is not executed immediately) as a measure to protect against latency arbitrage.

**(2) Execution of Orders from Clients Who Do Not Use PRISM**

Unless there is any specific instruction from a client with regards to the financial instruments exchange markets, etc. in how an order should be executed or the execution method (example: request for us or our foreign affiliates to act as a direct counterparty of the transaction, etc.), we will route the order as an agency order to a domestic financial instruments exchange where the securities are listed. Orders received from a client outside of trading hours will be routed to a financial instruments exchange after trading restarts on that exchange, unless there is any specific alternate instruction from the client.

The only financial instruments exchange we place agency orders on is the TSE.

Orders placed by professional investors who have agreed to use, and instructed to execute the orders on Instinct X® will be routed only to Instinct X®.

**3. Reasons for Selecting the Relevant Execution Methods****(1) Execution of Orders from Clients Who Use PRISM**

We place client orders to PTSs in addition to the TSE, as we consider it reasonable to make venues other than financial instruments exchanges available for clients to achieve better execution results, as trading volume on PTSs has been increasing in recent years. Order executions through PRISM, which instantaneously searches the latest quotes and automatically decides the execution venue to be routed to out of multiple financial instruments exchange etc., are considered to contribute to an optimization of execution price and an improvement in execution probability, which will lead to better execution results for clients. Additionally, with regards to orders from a client who has selected Instinct X® as one of the execution venues in PRISM, we consider it reasonable to first route such orders to Instinct X® without leaving them on the order book of a financial instruments exchange market, etc. in order to reduce market impact. In the case where multiple financial instruments exchange markets, etc. offer the same most favorable price, our order routing logic is set up to increase the execution probability, taking into account such factors as market impact and liquidity.

Regarding our measures against latency arbitrage, we consider the usage of the method described in 2. (1) (3) above to be effective in reducing the predictability of which financial instruments exchange markets, etc. an order will be routed to.

**(2) Execution of Orders from Clients Who Do Not Use PRISM**

Unless there is any specific instruction from a client with regards to the financial instruments exchange markets, etc. in which an order should be executed or the execution method (example: request for us or our foreign affiliates to act as a direct counterparty of the transaction, etc.), in general, we consider a financial instruments exchange, as compared to an off-exchange trade, to be a superior venue in terms of liquidity, execution probability, execution speed, etc. We have therefore determined that execution on an exchange is most reasonable for clients.

#### 4. Others

- (1) Notwithstanding 2. above, we will execute the following types of transactions as indicated below:
- (i) A transaction for which we have received a specific instruction from the client concerning the execution method (examples: request for us or our foreign affiliates to act as a direct counterparty of the transaction, to cross the order with another client's order, to execute the order on a specific financial instruments exchange, to place the order on a PTS, to route the order to Instinct X®, to execute the order during a specific time period, or transact each execution at specific timings, etc.):  
Will be executed as instructed.
  - (ii) A transaction under a discretionary agreement, etc. which we perform as Type 1 or Type 2 Financial Instrument Exchange Business:  
Will be executed by a method of our choice within the range of discretions permitted under the contract.
  - (iii) Odd-lot shares or shares of less than a trading unit:  
Will either be executed by placing the order with a financial instruments business operator that handles odd-lot shares or the shares in a quantity that is less than a trading unit, or executed as an off-the-exchange trade where we or our foreign affiliate act as a direct counterparty.
- (2) In cases of emergency, such as a systems failure or otherwise, we may have no alternative but to execute an order using a method other than the methods that should have been selected based on this best execution policy. Even in such cases, we will endeavor to execute on the best terms possible at the time.

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The duty of best execution does not only relate to price but also involves the consideration of various factors including cost, speed, and probability of execution. Therefore, a trade that in hindsight appears to not have been executed at the best possible price does not by itself necessarily constitute a violation of the duty of best execution.

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### 3. BofA Securities India Limited Best Execution Principles for Smart Order Routing facility

#### A. General Statement

The principles stated in this section shall be governed under rules, regulations, notification, bye-laws, circulars and guidelines of Securities and Exchange Board India (SEBI), National Stock Exchange of India (NSE) and Bombay Stock Exchange of India (BSE) or any other law that may be in force from time to time.

#### B. Scope of the principles

The principles will apply while executing orders under SOR facility on client's behalf through BofAS India.

#### C. Best Execution and order handling

- Reasonable steps should be taken while executing orders on behalf of clients to obtain the best possible result including considering relevant factors.
- BofAS India will not be expected to achieve the best price for every order but rather the best possible result that can reasonably be expected while executing trades on the Smart Order Routing system
- Best Execution means selecting execution venues taking into account the execution factors listed below:
  - i. Price
  - ii. Liquidity
  - iii. Cost
  - iv. Nature
  - v. Comparable Market data
  - vi. Size of the order
  - vii. Speed of execution
  - viii. Market Depth
  - ix. Likelihood of execution based on the quantitative methodology
  - x. Any other relevant factor/consideration

For the purposes of the Best Execution, one or more of the above mentioned factors may be considered.

#### D. Changes in the principles

BofAS India will notify the client if any material changes are made in best execution principles. Such changes will be preceded by a notice/intimation of 15 days.