# Order Execution Policy

## LIQUIDITY FINANCE LLP

**July 2021**

## 1. General Information

LIQUIDITY FINANCE LLP ("Liquidity") has established this Policy, along with other arrangements, to meet its overarching obligation to take all sufficient steps to obtain the best possible result for its clients when either executing client orders, arranging for a third party to execute a client order on our behalf or dealing on a Request for Quote ("RFQ") basis. We are not required to guarantee that we will able to provide best execution on every order execute on your behalf.

For the avoidance of doubt, this Policy applies only to clients classified as Professional Clients and does not apply to those clients who have been categorised as Eligible Counterparties. This Policy is not directed at, or intended for Retail clients. The requirement to obtain the best possible result for clients will be applied to any relevant transaction in MiFID financial instruments for all Professional Clients of Liquidity, irrespective of their domicile.

Liquidity has an obligation to provide its clients with appropriate information on this Policy. In order to comply with this obligation, the firm will make this Policy available to clients upon written request and prior to the provision of services where a client agreement is signed.

Liquidity will always obtain prior consent to this Policy from its clients, which is done by way of our terms of business or separate agreement where appropriate. This Policy will be applied to each client order executed and we must be able to demonstrate compliance with this Policy upon a client's written request.

This Policy only applies with respect to the following MiFID financial instruments:

- Cash Bonds (Government and Corporate Bonds)

There are occasions when Liquidity may choose to execute orders with third parties outside of a Regulated Market, a Multilateral Trading Facility or an Organised Trading Facility (collectively "trading venues"). In line with its obligations, the firm will always ensure it that has obtained prior express consent from its client(s) before doing so. This is achieved through the firm's categorisation letters to clients, a receipt / acknowledgment of the Terms of Business from the client, Client Consent form, or individually in relation to specific transactions.

Liquidity will explain the consequences to the client(s) of dealing outside of a trading venue (e.g. counterparty risk).

When Liquidity makes a decision to trade, it may carry out the trade in one (or more) of the following ways:

- By filling the order from its own book (acting as principal); or

- By executing the order directly with a counterparty in the market (acting either as principal or matched principal).

When a client makes reasonable and proportionate request for information about policies or arrangements and how they are reviewed, Liquidity will answer clearly and within a reasonable time period.

## 2. Liquidity's Best Execution Obligations

Subject to Sections 3 and 4 below, Liquidity will take all sufficient steps to obtain the best possible result for its clients on a consistent basis, taking into account the execution factors.

The execution factors are:

- price;
- costs;
- speed;
- likelihood of execution and settlement;
- size;
- nature, and
- any other consideration relevant to the order.

The relative importance of these factors must be determined by reference to the "execution criteria". The execution criteria are the characteristics of the:

(i) client including its categorisation;

(ii) client order;

(iii) financial instrument that is the subject of that order;

(iv) execution venues to which that order can be directed.

**Matched principal trades:** Subject to Section 3 below (Specific Instructions), Liquidity will owe the duty of best execution in respect of all riskless principal trades with Professional clients.

In quote driven market such as cash bonds, Liquidity may charge an explicit commission or impose a mark-up / mark-down to the price versus the price where it may buy or sell a security. Liquidity will ensure that mark-ups / mark-downs charged on transactions where best execution is owned are reasonable and not excessive in relation to the particular bond, taking into account its duration, liquidity and size of the trade.

**Risk trades (RFQ):** Where Liquidity acts as principal on risk transaction and a client asked us for a quote (RFQ), best execution obligations are unlikely to apply, in the context of the European Commission's four cumulative considerations as detailed in Section 4 (Legitimate Reliance).

## 3. Specific Instructions

In the event that Liquidity receives specific instructions from a client, the firm will be deemed to have satisfied its obligation to take all sufficient steps to obtain the best possible result for that client, but only in respect of the part or aspect of the order to which the client instructions relate. The firm will still have a duty of best execution in respect of the part or aspect that is not covered by the instructions, however, the client should be aware that providing us with specific order instructions may encumber the ability of the firm to obtain the best overall result.

## 4. Legitimate Reliance

Proprietary transactions may be subject to best execution requirements if they are being executed on a client's behalf. The key consideration is whether the client legitimately relies on the firm to protect their interests in relation to the pricing and other elements of the transaction – such as speed or likelihood of execution and settlement – that may be affected by the choices made by the firm when executing the order.

When Liquidity provides quotes or negotiates a price with a client who is categorised as a Professional Client, Liquidity will take into consideration the nature of the instruction with respect to the four-fold cumulative test as set out by the European Commission.

In determining whether it is able to deal on an RFQ basis, Liquidity will consider the nature of the instruction with respect to the four-fold cumulative test. The distinction between a client's reliance on Liquidity to achieve best execution and an RFQ is:

(i) where the client is legitimately relying on Liquidity to achieve the best execution outcome i.e. for Liquidity to act on the client's behalf in protecting their interests (an order); and

(ii) where the client merely requests or takes a price (an RFQ).

The four-fold cumulative test considers the following factors:

(i) **which party initiates the transaction** - where we approach the client and suggest that they should enter into a transaction, it is more likely that they will be placing reliance on us. Where the client initiates the transaction, it is less likely that they will be placing reliance on us;

(ii) **questions of market practice and the existence of the convention to 'shop around'** - In the wholesale OTC bond markets, buyers tend to "shop around" by approaching several dealers for a quote, and in these circumstances there is less likelihood that the client will be placing reliance on us;

(iii) **the relative levels of price transparency within a market** - if we have ready access to prices in the market in which we operate, whereas the client does not, it is more likely that the client will be placing reliance on us, whereas if our access to pricing transparency is equal or similar to the client, it is less likely that they will be placing reliance on us; and

(iv) **the information provided by Liquidity and any agreement reached** - where our arrangements and agreements with the client do not indicate or suggest a relationship of reliance, it is less likely that they will be placing reliance on us.

Where the consideration of all the above factors concludes that the client is not legitimately relying on Liquidity, then best execution will not apply for that particular transaction.

## 5. Liquidity's Strategy

Liquidity will normally consider the price and likelihood of execution and settlement to be the most important execution factors for cash bonds. The remaining factors – order size, costs, speed, nature of the order and any other consideration relevant to the order will generally be given equal weight, although the factors can vary on a case by case basis and by individual client.

To comply with overarching best execution requirements, Liquidity will systematically check the fairness of prices being offered to clients. This will be done by gathering external market data, including published price feeds and comparing it with the execution prices where appropriate.

If the clients are invited to choose an execution venue, Liquidity will provide fair, clear and not misleading information to prevent the client from choosing one execution venue rather than another on the sole basis of the price policy applied by the firm.

The firm will also regularly sample trades and conduct ex-post checks to ensure fairness of prices, and maintain records of its best execution monitoring.

## 6. Execution Venues and Brokers

The execution venues on which Liquidity executes client orders in cash bonds are listed below:

**Liquidity Finance LLP**, a Full Scope €730k CRD IV firm under IFPRU
LEI: 213800FHX4VCUAQI1I21

**Bloomberg Trading Facilities Limited**, a UK investment firm authorised and regulated by the FCA, with permission to operate an MTF
LEI: 549300ROEJDDAXM6LU05

**Bloomberg Trading Facility B.V.**, trading as **BTF Europe**, incorporated in Netherlands and registered by the Autoriteit Financiële Markten (AFM)
LEI: **254900QBKK4WBSO3GE51**

Given the execution factors we consider to be of most importance and the nature of financial instruments we transact in (many of which are illiquid), these venues enable Liquidity to obtain on a consistent basis the best possible result for its clients.

Liquidity will comply with its MiFID II requirements by releasing an annual publication of its top five execution venues and its top five investment firms in terms of trading volumes of executed orders per class of financial instrument. In addition to the quantitative criteria, Liquidity will provide a summary of the analysis and conclusions drawn from the detailed monitoring of execution obtained on the venues where Liquidity has executed all client orders in the previous year.

## 7. Monitoring and Review

This Policy and the arrangements will be reviewed annually or whenever a material change occurs that affects the firm’s ability to continue to obtain the best possible result for our clients.

On a regular and ongoing basis, Liquidity shall monitor the effectiveness of this Policy and assess the quality of the entities listed in Section 6 to ensure they are providing the best possible result for Liquidity’s clients.  Any deficiencies in any arrangements or within this Policy will be corrected and clients will be notified of any material changes.