



CLSA AUSTRALIA PTY LTD (“CLSA APL”) – BEST EXECUTION POLICY STATEMENT

This Best Execution Policy Statement describes the factors **CLSA APL** is required to consider and the steps that **CLSA APL** as an ASX Market Participant is required to take to obtain the best outcome for its Wholesale clients pursuant to the requirements under ASIC Market Integrity Rule (Competition in Exchange Markets) 3.1.1(2)(b).

Any word or expression which is not capitalised herein shall have the meaning ascribed to such term in the CLSA Market Terms for Australia.

In circumstances where **CLSA APL** executes non-Direct Market Access equity trades on clients' behalf, **CLSA APL** has a regulatory obligation to achieve best execution of clients' orders in accordance with the requirements of the ASIC Market Integrity Rules (Competition in Exchange Markets).

In circumstances where **CLSA APL** executes Direct Market Access (“**DMA**”) equity trades on clients' behalf, **CLSA APL** in so far as is practicable, will take all reasonable to ensure that the DMA service (and where applicable, the provision of Algorithmic Services), are provided in accordance with the CLSA ASIA – Pacific Direct Market Access Services Annexure and the obligations and requirements of the ASIC Market Integrity Rules (Competition in Exchange Markets) which are applicable to DMA service.

Pursuant to the requirements under ASIC Market Integrity Rule (Competition in Exchange Markets) 3.1.1, **CLSA APL** will meet its obligations:

- (i) on the ASX central limit order book of ASX (i.e. ASX TradeMatch) The ASX central limit order book applies a price-time priority approach to execution;
- (ii) by using ASX Centre Point market (“**Centre Point**”) and ASX TradeMatch which allows Centre Point crossings and Centre Point orders to be placed or transacted on a non pre-trade transparent basis at the prevailing midpoint of the best bid and offer of the ASX market central limit order book. Note that Centre Point orders can only transact with other Centre Point orders. Centre Point orders and Centre Point crossings are only able to be executed when the ASX market trades on a continuous basis;
- (iii) on the Chi-X Australia Order Book. The Chi-X Australia Order book applies a price-time priority approach to execution; and
- (iv) the **CLSA APL** Crossing Engine allows matching with other **CLSA APL** client orders, at prices that are at or within the spread, in accordance with the requirements of ASIC Market Integrity Rules (Competition in Exchange Markets) Pre-trade Transparency Exception 4.2.3(b).

CLSA APL's crossing system is called Crossing Engine and operates under code 2311. CLSA APL's Crossing Engine commenced operations on 15 October 2012. CLSA APL's Crossing Engine is only available to Wholesale Clients trading ASX listed securities. The Crossing Engine is available to all existing clients, unless that client has specifically requested to opt out of the Crossing Engine. Access to the Crossing Engine is uniform for all clients. All client orders access the Crossing Engine via CLSA APL's algorithmic trading system. No clients have direct access to the Crossing Engine.





Centre Point orders can only transact with other Centre Point orders. Centre Point orders and Centre Point crossings are only able to be executed when the ASX market trades on a continuous basis.

The CLSA APL Crossing Engine may match buy and sell orders for the same security, from different clients, only when the ASX market trades on a continuous basis.

Differing Trading Hours:

Where ASX is in a session state other than "OPEN" (including but not limited to when its session state is set to: "PRE_OPEN"; "PRE_CSPA"; "ADJUST"; "SUSPEND"; "TRADING HALT" etc) orders routed through CLSA APL's smart order router will always be routed to ASX regardless of the trading status of any other market.

Measures that CLSA APL will take into account to achieve best execution performance on behalf of clients:

1. **Price of the equity market product:** - Price is an important outcome to be considered by **CLSA APL**; however price may not necessarily represent the best outcome at a given point in time. For example, the order book of the exchange that is displaying the best price may not have much volume.
2. **Costs:** - **CLSA APL** does not pass on or apply its charges on a transactional size or number of trade basis; instead it applies its brokerage charges on a pre-agreed basis with its clients. The brokerage charges are subject to change as agreed with clients on an ongoing basis.
3. **Speed:** - **CLSA APL** is cognisant that speed of execution is increasingly an important outcome for clients. In circumstances where a client instructs **CLSA APL** that it needs to exit a position quickly or is concerned that the price may move in an adverse direction, **CLSA APL** will use its best endeavours to execute the order in accordance with the client's instructions.
4. **Execution Certainty:** - In circumstances where a client seeks certainty that a large order will be executed, **CLSA APL** will take into account the likelihood of execution as an important outcome. In its endeavour to achieve execution certainty, **CLSA APL** will, amongst other things, take into consideration the volumes available at each price point on the order book of ASX TradeMatch. In this regard, **CLSA APL** may consider executing smaller orders at the best prices on the central limit order book, but larger orders may involve taking out orders across multiple price points. **CLSA APL** is cognisant of the fact that when executing part of a large order on the central limit order book, that may mean subsequent executions become less favourable. **CLSA APL** will consider these issues when submitting client orders for execution.
5. **Range of Outcomes to achieve the Best Outcome:** - **CLSA APL** will consider a range of outcomes including points 1 to 4 above to achieve the Best Outcome for its clients – the range of outcomes for consideration, amongst other things include:
 - Nature of the clients' orders;
 - The clients' specific instructions;
 - Time of receipt of orders compared to other orders;
 - Size of the order;
 - Market liquidity, volatility and the impact of the order on the market; and
 - Any other relevant factors.





Clients may instruct **CLSA APL** to take into consideration certain factors which are more important to them. In the absence of clients' specific instructions, **CLSA APL** will exercise its own discretion to determine the relative importance of the factors and use all reasonable efforts to achieve best execution. Clients are advised that the use of specific instructions may result in a client not obtaining the best outcome.

Specific Instructions

Where a client provides **CLSA APL** with instructions that are:

- (a) inconsistent with **CLSA APL** obtaining the best outcome under Part 3.1 of the Rules for the Client;
- (b) clear and unambiguous;
- (c) in writing, via electronic communication or if provided to **CLSA APL** verbally, recorded by **CLSA APL** and retained by **CLSA APL** for a period of seven years; and
- (d) not contained within the standard terms and conditions of a client agreement provided by **CLSA APL** to the client, but which may be a standing instruction or specific Order by Order instruction.

CLSA APL will take reasonable steps to handle and execute the order or orders in a way which satisfies the clients' instructions, even if the result will not be to obtain the best outcome.

In the absence of express instructions from the client, **CLSA APL** will exercise its own discretion, having regard to the terms of the clients order in determining the factors that it needs to take into account for the purpose of providing the client with Best Execution.

CLSA APL's reliance on the ASIC Market Integrity Rules (Competition in Exchange Markets) Pre-trade transparency exception - ASIC Market Integrity Rule (Competition in Exchange Markets) 4.1.1:

In accordance with the requirements of the ASIC Market Integrity Rule (Competition in Exchange Markets) 4.1.1, **CLSA APL** as a Market Participant is prohibited (subject to certain exceptions) from entering into a transaction unless the order is first pre-trade transparent on the central limit order book of ASX TradeMatch or the Chi-X Australia Order Book. Pre-trade transparency refers to information on bids and offers being made available before transactions occur.

There are, however a number of exceptions, under ASIC Market Integrity Rule (Competition in Exchange Markets) 4.1.1(2) which allows **CLSA APL** (as a Market Participant) to not comply with its obligation to submit orders to a pre-trade transparent order book. In its endeavour to achieve the best outcome for its clients, **CLSA APL's** best execution arrangements allow for client orders to be executed under the pre-trade transparency exception. The factors that **CLSA APL** is required to consider in determining its reliance on the pre-trade transparency exceptions, amongst other things, include: (i) price improvement; (ii) volume improvement; and/or (iii) managing market impact.

The pre-trade transparent order exceptions are summarised as follows:

- (a) block trades, in accordance with the requirements of Rule 4.2.1;
- (b) large portfolio trades, in accordance with the requirements of Rule 4.2.2;
- (c) trades with price improvement, in accordance with the requirements of Rule 4.2.3;





(d) permitted trades during the post trading hours period, in accordance with the requirements of Rule 4.2.4; and

(e) out of hours trades, in accordance with the requirements of Rule 4.2.5.

CLSA does not owe clients fiduciary duties over and above the specific regulatory obligations placed upon **CLSA APL** or as may be otherwise contracted between the client and **CLSA APL** as a result of **CLSA APL's** commitment to provide clients with best execution.

Date: November 2013

