Best Execution Policy

Revised on April 1st, 2024

CLSA Securities Japan Co., Ltd

    This Best Execution Policy sets forth the policies and methods for executing orders on the best terms and conditions for clients in accordance with the provisions of Article 40-2-1 of the Financial Instruments and Exchange Law.

    With respect to securities listed on Japanese stock exchanges, we will execute client orders in accordance with this policy unless clients give us specific instructions on the execution of their orders.

*   Unless otherwise instructed by clients, we shall not be the principal party to the transaction facing clients, but we shall intermediate client orders to the financial markets as agency orders. Securities transactions in foreign markets handled by our overseas affiliates shall be executed in accordance with the respective Best Execution Policies, based on the contractual terms between clients and our overseas affiliates.

1. Smart order routing

    Our best execution is in principle carried out through our smart order routing ("SOR")[1] system operated by us. If clients choose to use SOR, their orders will be routed to the exchanges or private trading systems ("PTS(s) ")[2] in accordance with their settings.

    If clients select Crossing Engine ("CE") that is our internal trading system[3] (aka dark pool (" DP(s) ")), SOR will forward client orders to CE and External DPs in addition to the routing mentioned above. Client orders matched by CE are executed at ToSTNeT through us, and client orders matched by external DPs are executed by ToSTNeT through external vendors.

    In our default settings, the use of SOR and CE is automatically selected unless otherwise requested by clients. In light of the increasing liquidity of listed stocks in the PTSs and DPs in recent years, we believe that providing execution opportunities in PTSs and DPs in addition to the exchanges best meets the interest of the clients who chose this setting.

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[1] In-house system that automatically selects the most advantageous execution price from multiple venues. Also referred to as smart order routing system.
[2] Private Trading System as defined in Article 26-2, Paragraph 7 of the Order for Enforcement of the Financial Instruments and Exchange Act.
[3] In-house trading system as defined in Article 70-2, Paragraph 7 of the Cabinet Office Ordinance on Financial Instruments Business, etc.

2. Eligible securities

Eligible securities include stocks, bonds with stock acquisition rights, ETFs (exchange-traded funds), and REITs (real estate investment trusts), listed on domestic exchanges, as specified in Article 16-6 of the Order for Enforcement of the Financial Instruments and Exchange Act. We do not trade Phoenix names (i.e., delisted stocks and bonds with stock acquisition rights) that are defined as tradable securities in Item 4 of Article 67-18 of the Financial Instruments and Exchange Law.

3. Markets to compare prices

Among the markets available, we have selected the following four markets[4] (collectively and severally, "Market(s)") and DPs, which we have assessed to be sufficiently liquid to our clients. (Note that there is no capital relationship between CLSA Group and the securities brokers that operate the following PTSs and external DPs.)

•   Tokyo Stock Exchange ("TSE")—we are a trading participant

•   J-Market (Japannext Co., Ltd.)

•   X-Market (Japannext Co., Ltd.)

•   Cboe Alpha (Cboe Japan Limited)

•   Crossing Engine (Our DP)

•   External DPs (DPs operated by an external vendors)

4. Methods and rationales for executing at the best trading terms

The following explains the terms and conditions for best execution by using SOR and not using SOR.

		Routed to		
		Markets and DPs	Markets Only	DPs only
SOR settings	On	Cell 1	Cell 2	Cell 3
	Off	Cell 4	Cell 5	Cell 6

(1)   When using SOR

In accordance with the above SOR characteristics, client orders will be forwarded to Markets and DPs as follows: we deem it to be the preference of the clients who chose this setting.

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[4] Exchanges and PTSs as defined in the main clause of Article 124(2) of a Cabinet Office Order on Financial Instruments Business, etc.

i. For settings that use SOR and forward to Markets and DPs (Cell 1)

    (a) SOR automatically selects a Market or DP where the best price is offered.

    (b) In (a) above, if there is more than one Market or DP with the most favorable price being simultaneously quoted, SOR automatically selects the most liquid Market or DP.

    (c) In (b) above, if multiple Markets or DPs with equal liquidity are identified, SOR automatically selects a Market with the highest probability that client orders are executed.

    (d) If multiple Markets or DPs are identified as a result of following the selection method in (c) above, client orders are sliced and sent simultaneously to the selected Markets or DPs.

    (e) In DPs, client orders are matched only when the matching prices in DPs are (i) the same as or better than the best bid/ask in Markets, and (ii) within the range of the highest and lowest prices in Markets for the day.

    (f) If the whole or part of a client order has not been executed (e.g. if the size of the client order is larger than the size of the matched order), then the non-executed part of the order is attempted to be executed again as above, until all of the client order is executed.

    (g) To prevent latency arbitrage[5], client orders are placed as IOC (immediate or cancel) orders[6] when routed to a single Market, and placed simultaneously when routed to across multiple Markets. In addition, orders from our group companies are always deferred to client orders when placed in DPs.

ii. When using SOR and forwarding to Markets only (Cell 2)

Client orders are automatically selected and forwarded to one or multiple Markets at the most favorable price by SOR. In this case, except that client orders are not forwarded to DPs, SOR routes client orders in the same manner as i. above.

iii. When using SOR and forwarding to DPs only (Cell 3)

Client orders will be forwarded to DPs only. In this case, client orders are routed to CE or external DPs, whichever can execute at the most favorable price.

(2) When SOR is not used

If clients choose not to use SOR, all client orders will be processed as agency orders and promptly routed either to TSE or CE in the manner described below, unless otherwise specifically instructed by clients. Client orders will not be forwarded to PTSs or external DPs.

i. Forwarding to TSE and CE without SOR (Cell 4)

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[5] The act of abusing the time difference (latency) between multiple markets when routing an order to multiple markets. It involves obtaining a quote from the first market reached and attempting to execute at more favorable prices in other markets.

[6] The order that allows for immediate execution of a partial or full order at the specified price or a more favorable price, while canceling any unfulfilled order quantity

Client orders are first forwarded to CE. In accordance with its specifications (see (1) i. (e) above), CE will compare between CE and the TSE and execute client orders by selecting the most favorable price.

    ii.   Forwarding to TSE only without SOR (Cell 5)

Client orders are forwarded to TSE only.

    iii.   Forwarding only to CE without using SOR (Cell 6)

Client orders are forwarded to CE only.

5.   When clients instruct to trade at the exchanges that we are not a participant of

If clients instruct us to trade securities listed on the exchanges that we are not a member of (including cases where the same securities are also listed on TSE), we will route such orders to relevant exchanges via Nomura Securities Co., Ltd, our intermediary broker for such orders.

Unless specifically instructed by clients, if clients have opted out for SOR, we will not handle off-exchange orders including those at PTSs and DPs.

6.   Miscellaneous

If the settings you have selected are different from your preferences, please let us know. We will propose the settings that meet your preferences to the extent technically possible. Transactions of odd lots will be handed over to the securities brokers specialized in odd lots.

Due to system failures, etc., we may have to execute client orders differently from this policy. Even in that case, we will execute at the best conditions available at the time.

We do not onboard individuals as clients, or deal in discretionary investment contracts and margin contracts. For those client orders for which execution methods are specified in the terms and conditions of our contract, we will execute them in accordance with the specified execution methods.

Agency orders received outside trading hours of the exchanges will be sent to the exchanges from when they are reopened.

The obligation to execute at the best terms and conditions is an obligation that obligates us to comprehensively consider not only price level but also various factors such as cost, speed, and certainty of execution. Thus, depending on the market condition, priorities of each factor may vary, and the price may not always be the dominant factor (for example, in the case of illiquid securities, the speed and probability of execution and settlement may be more important than the price). Even if it may not be the best execution, post facto, if solely focused on the price, it does not necessarily constitute a breach of the best execution obligation. In addition, the price at which a client order is matched by DPs does not necessarily guarantee a favorable price at the time of execution.

Please also refer to CLSA Group Policy for the control and administration of the Best Execution Policy, as attached Appendix.

Appendix

1. Monitoring and Control mechanisms

    CLSA has an obligation to monitor the effectiveness of its order execution arrangements and this policy. This obligation has been incorporated into CLSA's general compliance monitoring process and business procedures and policies. CLSA assesses, on a regular basis, whether the execution venues provide the best possible result for clients or whether it needs to make changes to its execution arrangements. The assessment takes into account the information on execution quality distributed by execution venues and Brokers where available. CLSA conducts regular reviews and post trade checking through random sampling of transactions to ascertain whether the best possible result was obtained in respect of those transactions. The performance of electronic trading algorithms against the intended benchmarks (where applicable) is ongoing and prompts a continual enhancement cycle and a feedback loop with users with respect to their usage of electronic trading tools.

2. Review of Policy

    Once every two years, CLSA will review this policy and its execution arrangements. The review will focus on whether CLSA would obtain better results for its clients if it was to: (A) include additional or different execution venues or brokers; (B) modify the process by which execution venues and Brokers are selected; and (C) modify any other aspects of this policy and/or its execution arrangements. CLSA will also review this policy and/or its execution arrangements whenever a material change occurs that could affect its ability to obtain the best possible result for the execution of its client orders on a consistent basis. CLSA will provide staff with periodic training on best execution as well as updates on internal policies and regulatory and technology developments.

3. Client Disclosure

    CLSA will provide its clients with appropriate information on this policy. To the extent that CLSA makes any material changes to this policy, it will notify the changes to its clients by publishing an updated version of this policy on the company web-site.

4. Roles of the Operational and control functions

    CLSA has implemented a Best Execution Committee consisting of senior management which is responsible for overseeing the best execution arrangements to protect clients' best interest, ensure fair treatment and to minimize conflict of interest. Responsibility for monitoring day to day activities with respect to best execution lies with the relevant desk who will assess execution quality against appropriate metrics and reference benchmarks. The Compliance department samples transactions to review the quality of execution and detect and address anomalies. The Internal Audit department will undertake periodic audits which may include a review of execution quality.