

# Order Execution Policy (HK)

## BMO Hong Kong Branch

Nov 2022

## Introduction

This order execution policy (“Policy”) sets out how the BMO Capital Markets<sup>1</sup> institutional sales and trading team of Bank of Montreal, Hong Kong Branch (“BMOCM HK”, “our”, “us”, “we”) provides best execution in connection with the obligations under the Code of Conduct for Persons Licensed or Registered with the Securities and Futures Commission (“SFC Code of Conduct”) when executing orders on behalf of clients qualifying as institutional or corporate professional investors of BMOCM HK (“Client”, “you” or “your”) in relation to:

1. Bonds and money market instruments;
2. Equities (cash equities);
3. FX derivatives;
4. Interest Rate derivatives;
5. Metal/ commodity derivatives; and
6. Structured/ securitised products.

When the best execution obligation applies, BMOCM HK must take sufficient steps to obtain the best possible results for Clients considering the Execution Factors (as defined below). Best Execution does not mean that we can guarantee that the best price will be achieved for every single Client order, but we will act, to the extent possible, in the best interests of our clients. When conducting business with us, you will be deemed to have agreed and consented to the Policy. For the avoidance of doubt, nothing in the Policy shall result in BMOHK owing any fiduciary duties to you.

The Appendix describes how best execution is applied in relation to each product.

## Applicability of best execution

The Policy applies only to clients which place a legitimate reliance on BMOHK to protect their interests when we execute, transmit or place orders on behalf of clients for certain types of financial instruments. BMOCM HK may choose to arrange for execution of orders through BMO affiliate(s)<sup>2</sup>, and BMO Capital Markets will monitor the effectiveness of such arrangements.

## Execution of orders on behalf of Clients

When we execute a transaction in a financial instrument by dealing as agent, or in an intermediated market access or riskless principal capacity and you have not given us specific instructions in relation to all relevant aspects of the execution of the transaction, we will assume that you will place legitimate reliance on us to protect your interests in relation to those elements of a transaction where we have discretion.

## Execution of orders in principal capacity

When dealing with you in principal capacity, for example but not limited to, on a request for quotation basis<sup>3</sup>, we will assess and determine whether you are placing legitimate reliance on us, we will consider all relevant circumstances of the transaction, including the following non-exhaustive list of factors referred to as the four-fold test:

---

<sup>1</sup> BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking business of Bank of Montreal and its subsidiaries and affiliates

<sup>2</sup> An entity which is within BMO Financial Group (i.e. Bank of Montreal and its subsidiaries and affiliates)

<sup>3</sup> when BMOCM HK provides quotes or negotiates a price to trade on a bilateral basis with a Client on request

1. which party initiates the transaction;  
*Where we approach you about a transaction, this may be a consideration in determining whether you are more likely to be placing reliance on us. This does not include the provision of trade ideas or information about products which can be independently assessed by you;*
2. questions of market practice and the existence of a convention to ‘shop around’;  
*Where there is a practice in a particular market that suggests that you would shop around for a quote then it is less likely that you will be placing reliance on us;*
3. the relative levels of price transparency within a market; and  
*If you have ready access to prices in a particular market then it is less likely that you will be placing reliance on us;*
4. the information provided by BMOCM HK and any agreement reached.  
*Where any agreement we have with you is clear that we will not provide a service that includes executing on your behalf and there is no other reason to suggest that you are relying on us to protect your interests in relation to the pricing and other elements of the transaction, it is less likely that you will be placing reliance on us.*

Following consideration of all relevant factors, including the four-fold test, we will take a view as to whether they, when looked at together, indicate legitimate reliance. Where, following consideration of the above factors, we conclude that you are not legitimately relying on BMO then Best Execution will not apply.

## Execution Factors

Where we have determined that Best Execution applies in relation to a transaction, we will, in accordance with the Policy, take all reasonable steps to obtain the best possible result in relation to that transaction.

In the absence of any specific instructions from you, we will take into account, if relevant, the following factors when executing a transaction on a Client’s behalf (together the “Execution Factors”):

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

## Execution Criteria

When we execute a Client order, by default, we will consider the key Execution Factors listed above to be the most important. For a Client, in general, we would expect price to be the most significant factor in the execution of your transaction unless you have instructed us otherwise. However, there may be circumstances where, depending on the nature of the transaction, other Execution Factors should be prioritized over price. The relative importance of these factors will change in response to the instructions provided or circumstances prevalent in the general market or specific execution venues during the execution of the order. For example, with illiquid instruments “*size and likelihood of execution*” will likely take priority over price. In determining the level of importance that we attach to the Execution Factors, we will take into account any specific instructions that you give us and the following criteria:

- the characteristics of the client including the regulatory categorization of the client;
- the characteristics of the relevant order that you have submitted to us, including any specific instructions;
- the characteristic of financial instruments that you have asked us to deal in; and
- the characteristic of the execution venues (the options available to us to execute the order).

## Specific instructions

Specific instructions from you in relation to the manner in which transactions on your behalf should be given effect to may prevent us from taking the steps that it has designed and implemented as part of this Policy to obtain best execution in respect of the elements covered by the relevant instructions. Where you give us a specific instruction, such as specifying an execution venue, to the extent that we accept and follow your instructions, we will have satisfied any best execution requirements with respect to that aspect of your order. The remaining elements of the order not covered by your specific instructions will remain subject to best execution obligation, where applicable.

## Aggregation and allocation

From time to time BMOCM HK may aggregate a client order with an order or orders from other Clients and/or with a transaction on its own or a BMO affiliate's account. Aggregation will only be performed if it is unlikely that the aggregation will work to the disadvantage of any of the Clients whose order is aggregated, but in certain circumstances, the aggregation may work to a Client's disadvantage in relation to a particular order.

## Use of affiliates and third-party brokers

BMOCM HK will execute through BMO affiliates wherever possible unless the client specifies otherwise. Where BMOCM HK uses a third party broker to execute transactions, we will undertake appropriate due diligence.

## Execution venues

Depending on the product, we may access any of the following when executing an order on your behalf:

- Regulated Market;
- MTF;
- Organised Trading Facility;
- Systematic Internaliser;
- other liquidity providers, e.g. market makers acting as principal and electronic liquidity providers;
- inter-dealer brokers; and
- other entities (including BMO affiliates) performing similar functions.

To the extent BMOCM HK has discretion over the choice of one execution venue over another, the selection of the execution venue will be made based on which venue (or venues) what we deem is likely to produce the best overall result for the Client. We select venues in various ways, including:

- on a long-term basis: we choose the venues to which we will maintain access, either directly or indirectly via third party brokers and/or other BMO affiliates; and
- on a short-term basis: we choose from those venues that we have indirect/direct access to, which is/are the most appropriate to execute individual orders or any part of them.

Both selections will be primarily driven by the same Execution Factors used for assessment of individual orders allowing us to achieve what we deem is the best execution for our Clients on a consistent basis.

## Monitoring, review and controls

BMOCM HK has an obligation to monitor the effectiveness of its order execution arrangements and this policy. This obligation has been incorporated into BMOCM HK's compliance monitoring process and business procedures and policies.

Responsibility for monitoring day-to-day activities with respect to best execution lies with the relevant desk and their supervisors. Trade Floor Supervision team will assess execution quality against appropriate metrics and reference benchmarks. Our Compliance Department will conduct regular reviews and post trade checking through samples

transactions. The Internal Audit Department will undertake periodic audits which may include a review of execution quality.

BMOCM HK will review this Order Execution Policy at least annually and the latest version is available at <https://capitalmarkets.bmo.com/en/about-us/regulatory/>

## Appendix A: Best execution by product

How best execution is applied in the context of each product.

Asset class	Prioritisation of External Factors	Best execution applicable?
<b>Bonds and money market instruments</b>	<ol style="list-style-type: none"> <li>1. price;</li> <li>2. speed of execution;</li> <li>3. likelihood of execution;</li> <li>4. size and nature of the order;</li> <li>5. costs;</li> <li>6. likelihood of settlement; and</li> <li>7. any other consideration relevant to execution</li> </ol>	Generally best execution would not apply as we understand that you are not placing reliance on us as we consider the nature of the market where you will generally request quotes from number of dealers and have transparency of the prices.
<b>Equities (cash equities)</b>	<ol style="list-style-type: none"> <li>1. price;</li> <li>2. likelihood of execution;</li> <li>3. speed of execution;</li> <li>4. costs;</li> <li>5. size of the order</li> <li>6. likelihood of settlement; and</li> <li>7. any other consideration relevant to execution.</li> </ol>	Generally best execution would apply where BMOCM HK executes orders as agent and there is legitimate reliance on us
<b>FX derivatives</b>	<ol style="list-style-type: none"> <li>1. price;</li> <li>2. likelihood of execution;</li> <li>3. speed of execution;</li> <li>4. costs;</li> <li>5. size of the order; and</li> <li>6. any other consideration relevant to execution</li> </ol>	Generally best execution would not apply as consider the nature of the market where clients will generally request quotes from number of dealers and have transparency of the prices.
<b>Interest Rate derivatives</b>	<ol style="list-style-type: none"> <li>1. price;</li> <li>2. likelihood of execution;</li> <li>3. speed of execution;</li> <li>4. costs;</li> <li>5. size of the order;</li> <li>6. likelihood of settlement; and</li> <li>7. any other consideration relevant to execution</li> </ol>	Generally best execution would not apply as consider the nature of the product and clients would approach and request us to provide them with quotes.
<b>Metal/Commodity derivatives</b>	<ol style="list-style-type: none"> <li>1. price;</li> <li>2. likelihood of execution;</li> <li>3. speed of execution;</li> <li>4. costs;</li> <li>5. size of the order</li> <li>6. likelihood of settlement; and</li> <li>7. any other consideration relevant to execution.</li> </ol>	Generally best execution would not apply as consider the nature of the product, clients would approach and request us to provide them with quotes.
<b>Structured / securitised products</b>	<ol style="list-style-type: none"> <li>1. price;</li> <li>2. likelihood of execution;</li> <li>3. speed of execution;</li> <li>4. costs;</li> <li>5. size of the order;</li> <li>6. likelihood of settlement; and</li> <li>7. any other consideration relevant to execution.</li> </ol>	Generally best execution would not apply as consider that clients would approach and request us to provide them with quotes, nature of transaction is in principal bilateral basis.

## Appendix B: Execution Factors

### Key Execution Factors

**Price:** this refers to the resulting price of the transaction excluding execution charges. Price will usually be our most important consideration. After price, size of the order, likelihood of execution and speed are usually our most important considerations.

**Speed of execution:** Interpreted as the rate at which it is able to progress an order. Where order instructions do not refer to speed (or participation rate), we will progress your order at a rate which we believe represents a balance between creating market impact and executing your order in a timely fashion so as to reduce execution risk.

**Likelihood of execution & size:** we interpret this as the likelihood that we are able to fill your order, in its entirety or a substantial part of it. Size and likelihood of execution are negatively correlated and are related to the concept of liquidity of the instrument. The more liquid an instrument is considered, the easier it will be to execute an order and all other things being equal, size.

Size and likelihood of execution increase in importance in situations where access to liquidity in the relevant instrument is constrained in some way, for example, if the Financial Instrument itself is illiquid or if the order has a limit price which is not marketable.

### Other Execution Factors

**Likelihood of settlement:** we expect transactions that we execute for you to settle in a timely fashion. Generally, in equity markets, likelihood of settlement is not a significant factor when executing on regulated markets and MTFs due to the involvement of a central counterparty ("CCP").

However, if we become aware that a particular execution strategy may compromise likelihood of settlement, we may not pursue that strategy even if it would result in a better price. Likelihood of settlement will also become more significant when executing through OTC channels.

**Costs:** if you have a commercial arrangement with us in which those costs influence our own charges to you, we will agree an appropriate way with you to incorporate costs into our execution strategy. We will not structure or charge commissions in a way as to discriminate unfairly between execution venues.