

Order Execution Policy (HK)

Dec 2021

Order Execution policy

Introduction

This Order Execution Policy sets forth information relating to how BMO Capital Markets¹ institutional sales and trading team of Bank of Montreal Hong Kong Branch (BMOCM HK) seeks to provide best execution as required by the Code of Conduct for Persons Licensed or Registered with the Securities and Futures Commission (SCF Code of Conduct).

Clients of BMOCM HK are institutional/corporate professional investors (Clients) who are sophisticated and experienced in trading. Transactions with Clients are booked in Bank of Montreal Hong Kong Branch, London Branch and Toronto Branch.

The term execution venue, as used in this Policy, is intended to refer to counterparties with which we may execute Client orders directly (such as the counterparty to an OTC derivative under an ISDA), as well as exchanges and other trading venues, where applicable.

When best execution is applicable, BMOCM HK must take all sufficient steps to obtain the best possible result for Clients taking into account factors such as price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

Applicability of best execution

Best execution applies when BMOCM HK receives a Client order and transmitting it to a third party for execution. BMOCM HK may choose to arrange for execution of orders through BMO affiliate(s)², and BMO Capital Markets will monitor the effectiveness of such arrangements.

The application of best execution will be limited to where BMOCM HK executes orders *“on behalf of clients”* and/or where BMOCM HK determines that there is legitimate reliance in accordance with this Policy.

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/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.

Specific 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 requirements, where applicable.

Execution of orders in principal business

When we are dealing with you in principal capacity, for example but not limited to, on a Request for Quotes basis³, we will assess and determine whether you are placing legitimate reliance on us by applying the four-fold cumulative test, which entails the consideration of the following factors:

¹ 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

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

³ 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;
2. questions of market practice and the existence of a convention to 'shop around';
3. the relative levels of price transparency within a market; and
4. the information provided by BMOCM HK and any agreement reached.

Where the consideration of the above factors leads us to conclude that the Client is not legitimately relying on BMOCM HK, then best execution will not apply.

Products that BMOCM HK deals as trading principal and market maker:

- FX derivatives
- Interest rates derivatives
- Bond & money market instruments
- Structured/secured products
- Metal/commodity derivatives

In general, BMOCM HK does not owe Clients best execution in relation to the above products where pricing is considered transparent (eg. money market instruments and FX products) and/or the Clients which deal in these products are sophisticated institutional/corporate professional investors which shop around, and they do not rely on BMOCM HK for best execution. Conversely, a case where Client is legitimately relying on BMOCM HK for best execution is when Client has entered into a swap agreement with us and needs to unwind it prematurely, prior to the end of the contract.

Applicability to orders

When best execution applies and in the absence of any specific instructions that may be given by a Client, we will take into account, if relevant, the following factors (Execution Factors) when executing or transmitting orders on a Client's behalf:

- 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.

Certain Execution Factors are more important than others. When we execute a Client order, by default, we will consider the key Execution Factors listed above to be the most important. 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:

- Client
- the characteristics of the transaction that you have submitted to us, including any specific instructions
- relevant financial instruments that you have asked us to deal in
- execution venues (the options available to us to execute the order)

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 Appendix describes how best execution is applied in the context of each product.

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 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.

Execution venues and use of affiliates and third-party brokers

For each financial instrument that we trade on behalf of our Clients, we consider what the best venue for executing the order is. Where we do not have direct access to a venue or where we otherwise deem it appropriate, we will execute orders through a third-party broker or a BMO affiliate.

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

- Regulated Market
- Multilateral Trading Facility
- Organised Trading Facility
- Systematic Internaliser
- other liquidity providers, e.g. market makers acting as principal and electronic liquidity providers
- inter-dealer brokers
- 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) provide for the best overall result for the Client.

BMOCM HK may also transmit your order for execution to another broker or dealer (which could include both BMO affiliate and/or third-party broker). In these instances, we may both determine the ultimate execution venue ourselves on the basis described above, and can instruct the other broker or dealer accordingly, or we will satisfy ourselves that the other broker or dealer has arrangements in place to enable us to comply with our best execution policy. Where BMO Capital Markets engages either a BMO affiliate or a third-party broker for order execution, we will monitor our executions with that broker to ensure that the entity is able to provide an appropriate standard of execution in the relevant market.

We select venues in various ways, inter alia:

- 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
- 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 best execution for our Clients on a consistent basis.

Monitoring and review; Roles of operational and control functions

BMOCM HK will monitor the effectiveness of our execution arrangements and execution policy in order to identify and where appropriate correct any deficiencies. This obligation has been incorporated into our Trading Floor Supervision monitoring and testing process.

Responsibility for monitoring day to day activities with respect to best execution lies with the relevant desk and the Trade Floor Supervision team who will assess execution quality against appropriate metrics and reference benchmarks. Our 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.

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

Appendix: Best execution by product

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

Asset class	Prioritisation of External Factors	Best execution applicable?
FX derivatives	<ol style="list-style-type: none"> 1. price; 2. likelihood of execution; 3. speed of execution; 4. costs; 5. size of the order; and 6. any other consideration relevant to execution 	Normally best execution would not apply
Interest Date derivatives	<ol style="list-style-type: none"> 1. price; 2. likelihood of execution; 3. speed of execution; 4. costs; 5. size of the order; 6. likelihood of settlement; and 7. any other consideration relevant to execution 	Normally best execution would not apply
Bonds and money market instruments	<ol style="list-style-type: none"> 1. price; 2. speed of execution; 3. likelihood of execution; 4. size and nature of the order; 5. costs; 6. likelihood of settlement; and 7. any other consideration relevant to execution 	Normally best execution would not apply, unless BMOCM HK is executing as an agent or, if applicable, in a riskless principal capacity
Structured / securitized products	<ol style="list-style-type: none"> 1. price; 2. likelihood of execution; 3. speed of execution; 4. costs; 5. size of the order; 6. likelihood of settlement; and 7. any other consideration relevant to execution. 	<p>Normally best execution would not apply.</p> <p>Best execution would only apply in the context of secondary market trading in BMO Capital Markets issued instruments, where BMOCM HK executes orders as agent.</p>
Metal/Commodity derivatives	<ol style="list-style-type: none"> 1. price; 2. likelihood of execution; 3. speed of execution; 4. costs; 5. size of the order 6. likelihood of settlement; and 7. any other consideration relevant to execution. 	Normally best execution would not apply.