

UBS Equities Execution Smart Order Routing

What is smart order routing?

With smart order routing a trader can enter an order in a stock, which can be executed across a number of different order books/exchanges and seek out the best price. All UBS orders are now smart order routed by default.

1. Should I direct where an order should be executed or should I leave it up to my broker?

The cost and resources required to connect to all venues is significant so we expect most clients to utilise their brokers' technology to meet their "best execution" obligations. If you give us a specific instruction for the execution of an order (for example, Direct Market Access orders submitted via an electronic system), we will execute the order in accordance with those specific instructions. Where your instructions relate to only part of the order, we will continue to apply our MiFID order execution policy to those aspects of the order not covered by your specific instructions.

You should be aware that providing specific instructions to us in relation to the execution of a particular order may prevent us from taking the steps set out in our MiFID order execution policy to obtain the best possible result in respect of the elements covered by those instructions.

2. Will only my strategy orders be smart order routed?

All orders at UBS by default will be smart order routed. This applies whether you give them to a sales trader, the portfolio trading desk or send them via DMA or use one of our algorithms.

3. Will UBS link to all liquidity venues?

UBS will connect to all "viable pools of liquidity". The definition of "viable pools of liquidity" is determined by factors including size of displayed liquidity, probability of detecting hidden liquidity (iceberg orders), effect of order being routed out to other destinations, life of existing quote (market data), possibility of price improvement (mid-point liquidity hidden in the book) and self-intelligence (based on recent fill rates from various destinations). Client orders will be sent to the venues with the greatest likelihood of receiving the best quality execution.

UBS is committed to providing high quality execution for our clients. In readiness for MiFID, UBS became a member of Chi-X (the new pan European Multi-lateral Trading Facility) and the Irish Stock Exchange. UBS will continue to assess new trading venues.

4. How can I send orders to a single exchange using FIX?

All orders sent to UBS will default to be smart order routed. However if you send them electronically, UBS will support the use of "SecurityExchange" <207> and ExDestination <100> in order to meet the MiFID requirement to specify, on an order by order basis, whether the broker has discretion to determine the best venue for execution or whether the broker is directed to a specific venue. If you are unable to support sending the tags above, we can hardcode a default for you individually. Please contact us for a copy of our relevant FIX – Rules of Engagement or see <http://www.fixprotocol.org/mifid>.

5. How do I access multiple execution venues if I don't have FIX or algorithmic trading yet?

All orders, no matter how you place them, including telephone orders, will be smart order routed unless you direct us otherwise.

6. Will fragmentation of liquidity be a problem?

Without the appropriate technology, executing order flow in fragmented markets will be difficult. UBS now uses consolidated market data and smart order routing to efficiently access all "viable pools of liquidity".

7. Why do I need to access multiple venues?

As liquidity fragments, to be certain of achieving high quality execution you need to make sure you can access all viable pools of liquidity through your executing broker. If you don't access all viable liquidity, you may not meet your own or your clients' "Best Execution" requirements.

8. How can I see a consolidated view of the market?

You have a number of choices. UBS's trading platform, UBS Pinpoint, can be used for routing orders to UBS and will show a consolidated order book. In addition, Bloomberg (check out MIFID<GO> on Bloomberg) and Reuters have consolidated views.

Point to note: UBS's liquidity destinations might not correspond with the aggregated market data you see in your own source. Make sure you know which sources your market data vendor is using and how big a share of the market that corresponds to. UBS Pinpoint provides you with a view of the consolidated venues that UBS categorise as "viable pools of liquidity" for each stock.

9. Can I specify liquidity pools from which I would like to be excluded?

Yes

10. Where will you post liquidity?

Orders sent 'to market' will simultaneously look for liquidity across multiple execution venues. The quantity that cannot be executed will be posted to the exchange where execution is most likely to occur. Initially we anticipate this will be the primary exchange.

11. If we want all our orders to be smart order routed (regardless of tag 100 value), would you be able to hardcode this for us?

Yes.

12. What execution factors will you take into account when determining where to route an order?

Execution factors that will be taken into account include price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

Price will ordinarily merit a high relative importance in obtaining the best possible result. However, in some circumstances, for some clients, orders, financial instruments or markets, we may appropriately determine that other execution factors are more important than price in obtaining the best possible execution result.

13. Will there be additional costs or change in fees? Will you pass on rebates on exchange fees?

The fees UBS charges for execution are on an 'all in' basis and as such we do not charge clients directly for the cost of executing on exchange. The rebates from the introduction of new trading platforms will not be passed on but will be used to ensure UBS can offer competitive rates for execution services in the future. As a point of information, for UBS in Europe, the overall external costs of executing on exchange, clearing and settling is in excess of USD100m a year.

14. What happens with settlement/confirmations if you execute my order on several venues?

Where securities are traded on multiple platforms, an assessment of the clearing and settlement structure of the platform will also need to be performed before determining if a security can be smart order routed. UBS will smart order route between fully fungible venues where the stocks settle into the same settlement depository. This will be at no additional cost to the client.

15. Why not become a multilateral trading facility?

There is no requirement currently for UBS to register as a multilateral trading facility.

16. Why will alternative execution venues be successful?

MiFID and the removal of the concentration rules, the availability of Smart Order Routing technology and the lower investment cost of exchange technology all point to success.

17. How can I tell where the best place is to execute?

Assessing the new venues and determining where best to execute will be no small task. It will require due diligence on the settlement structure of the platforms and then a combination of qualitative and quantitative analysis of the available liquidity and trading patterns. Alternatively you could follow the path which the majority of our clients have chosen and utilise UBS's ability to add value to the execution of your order by selecting the most appropriate venues.