

THE SMART ORDER WAY TO ROUTING

As technology becomes ever-more crucial in best execution, Richard Semark, COO of Client Trading and Execution at UBS, gives a back-to-basics explanation of smart order routing

1) 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.

2) 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 venue for the execution of an order (for example, LSE), we will execute the order in accordance with those specific instructions.

You should be aware that providing specific instructions to us in relation to the execution venue of a particular order may prevent us from taking all of the steps set out in our MiFID order execution policy. We will, however, execute in line with our policy, apart from Smart Order Routing.

3) 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.

4) Will UBS link to all liquidity venues?

No. UBS will connect to all "viable" execution venues. "Viable" is determined not just by price. Other factors such as size of displayed liquidity, probability of detecting hidden liquidity (iceberg orders), cost of sending orders (IOICs/information leakage), 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), self-intelligence – based on recent fill rates from various destinations – will be taken into

account. Client orders will be sent to the platform with the greatest likelihood of receiving the best-quality execution.

UBS has already joined two new venues in order to meet our MiFID obligations and provide high-quality execution: Chi-X and the Irish Stock Exchange.

5) 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 a client cannot support the above, UBS can hardcode a default for the client.

6) 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 and including telephone orders, will be smart order routed, unless you direct us otherwise.

7) Will fragmentation of liquidity be a problem?

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

8) 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 the 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.

9) 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 MIFI<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.

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) Will there be additional costs or a change in fees? Will you pass on rebates on exchange fees?

No.

12) What happens with settlement/ confirms if you execute my order on several venues?

UBS will only smart order route to venues providing settlement into the same CSD [Central Securities Depository].

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