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## Regulatory Disclosure Statement: Order Execution and Conflicts Management

This regulatory disclosure statement provides you with information on order execution and conflicts management when you (as a client) trade with the Treasury & Markets unit of DBS Bank Ltd., Hong Kong Branch and/or DBS Bank (Hong Kong) Limited (“**DBS Hong Kong**”, “**we**” or “**us**”). It is relevant to any clients (“**you**”) developing or maintaining a trading relationship with DBS Hong Kong or providing us with any instructions to enter into a transaction or perform any service for you, whether in respect of over-the-counter derivatives, foreign exchange transactions, sale and purchase of securities or structured investment products. To the extent that you maintain your trading relationship with us, it will be on the basis that you have read and understood this statement.

Our clients include institutions and corporates and this letter is addressed to such institutional and/or corporate clients. This letter is not directed at, or intended for, retail clients or individuals.

Reference is made to various regulatory guidance<sup>1</sup> recently issued by the Securities and Futures Commission of Hong Kong (“**HKSF**”) and the Hong Kong Monetary Authority (“**HKMA**”) with the intention to promote greater transparency and fairness. In line with regulatory expectations and international standards, DBS Hong Kong is committed to complying with these higher standards to the extent applicable.

### 1. Principal Trades

DBS Hong Kong wishes to highlight that in respect of over-the-counter derivatives, sale and purchase of securities (excluding cash equities and unit trusts / investment funds) or structured investment products, DBS Hong Kong acts in a principal capacity as an arm’s-length party in relation to you, unless otherwise specified in writing between DBS Hong Kong and yourselves for the specific transaction.

### 2. Best Execution

The regulatory requirements provide that licensed corporations and registered institutions should have in place arrangements, controls and monitoring and management supervision to execute client orders on best available terms to deliver best execution.

Generally, DBS Hong Kong will assess whether best execution principles apply, having regard to:

- (a) the nature of the product;
- (b) the capacity of DBS Hong Kong in dealing with you;
- (c) the party who initiated the transaction;
- (d) the market practice and existence of a convention for clients to “shop around”;
- (e) the relative levels of transparency within a market; and
- (f) any agreement between us.

The best execution obligation exists when DBS Hong Kong assesses that a client is legitimately relying on DBS Hong Kong to provide the best available terms for a transaction. Circumstances where you may be considered so, for example, include a “Worked Order” scenario, where DBS Hong Kong is given discretion

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<sup>1</sup> “Circular to licensed corporations on best execution” issued by HKSF on 30 January 2018 & “Circular Issued by the SFC on Best Execution” issued by the HKMA on 9 February 2018 and “Circular to licensed corporations on client facilitation” issued by HKSF on 14 February 2018 & “Circular Issued by the SFC on Client Facilitation” issued by the HKMA on 15 February 2018

as to the manner of execution and exact terms of the resulting transactions; and the execution can be booked without the need to re-confirm with you the price, size or any other factor(s).

## 2.1 Application of Execution Factors

**2.1.1** Subject to the normal course of business and so long as the order does not fall within any carve out situation as outlined below, we will consider a range of execution factors when determining how to obtain the best possible result for you as far as it is reasonably and commercially possible. Some of these factors are considered to be more important than others; however, there are situations where the relative importance of these factors may change in accordance with instructions you provide or broader market conditions.

**2.1.2** Example of execution factors that we consider are:

- (a) Price – this is the price at which the order is executed;
- (b) Cost – this includes implicit costs such as the possible market impact, explicit external costs, e.g. exchange or clearing fees and explicit internal costs which represent our own remuneration through spread or commission (if relevant);
- (c) Size – the size and nature of the order may affect the price of execution;
- (d) Speed – the time it takes to execute your order;
- (e) Likelihood of execution and settlement – the likelihood that we will be able to complete your order;
- (f) Liquidity - the degree to which an order can be quickly filled in the market without affecting the product's price;
- (g) Nature of the order and any other consideration relevant to the execution of the order – this may include, for example, the particular characteristics of your order which can affect how best execution is received.

**2.1.3** When determining the relative importance of each execution factor, we will take into account the following in the context of the current market conditions:

- (a) the characteristics of the client, including the categorization of the client as professional or retail;
- (b) the characteristics of the order;
- (c) the characteristics of the products that are the subject of the order; and
- (d) the characteristics of the execution venues or entities to which the order can be directed.

Generally, we consider that the most important execution factor for our wholesale clients is the price at which the transaction in the relevant financial instrument is executed. However, there may be circumstances where the primary execution factors may vary and price is no longer the dominant execution factor; for example, for transactions in illiquid securities, the likelihood of execution and settlement become more important. When considering the execution factors, we will use our experience and expertise to achieve the best balance across the full range of factors. This may mean that we do not always achieve the best price for every client transaction, but the best result that can be reasonably expected given the information available during the execution process. It should, however, be noted that when undertaking a transaction, any specific execution factors specified by you will always be paramount in ensuring best execution is provided.



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**2.1.4** Our commitment to provide you with best execution does not mean we owe you any fiduciary or other duties over and above the specific regulatory obligations placed upon us.

## **2.2 Specific Instructions**

**2.2.1** Where you give us a specific instruction in relation to an order, we will follow that instruction so far as is reasonably possible when executing the trade. By following your specific instruction, we will have satisfied our obligations to provide you with best execution in relation to that transaction. It should be noted that in circumstances where you give us a specific instruction which covers one part or aspect of an order, we may not be able to achieve the best execution result for the other part or aspect of the order. Examples of such specific instruction may include, but are not limited to, request for a specific price or limit price order, requests to execute on a particular venue or to execute an order over a particular time frame.

**2.2.2** We draw your attention to the fact that any specific instructions from you may prevent us from taking steps that we planned and implemented to obtain the best possible result for the execution orders in respect of the elements covered by those instructions.

## **2.3 Carve Out situations**

### **2.3.1 Foreign Exchange, Over-the-Counter derivatives and certain structured investment products**

In respect of any over-the-counter derivative transactions and any structured investment products that are in a deposit format (such as currency linked instruments, foreign exchange or interest rate linked structured investment products or equity linked deposits), best execution principles generally are not applicable to these transactions. This is because these transactions have one or more of the following characteristics:

- (i) the product by nature is principal to principal bi-lateral transaction entered into between DBS Hong Kong and yourselves;
- (ii) you approach and request us to provide you with quotes; or
- (iii) DBS Hong Kong only offers in-house products, which means there is a limited availability of in-house products which may be offered to you.

In respect of foreign exchange transactions, DBS Hong Kong will execute all foreign exchange transactions as principal. Our dealings in foreign exchange transactions are subject to the FX Global Code, to which DBS Hong Kong is already committed to.

### **2.3.2 Fixed Income securities and Structured Notes**

In respect of trading of any fixed income securities and structured notes, if you are a large / sophisticated corporate customers<sup>2</sup> or Institutional Professional Investor or Corporate Professional Investor<sup>3</sup>, best execution principles do not generally apply to your order submissions of Request-For-

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<sup>2</sup> As defined in HKMA's Circular "Applicability of Enhanced Measures to Sale of Investment Products to Corporate Customers" dated 20 December 2012

<sup>3</sup> "Institutional Professional Investors" refer to that defined in the SFC's Code of Conduct and "Corporate Professional Investors" refer to those professional investors where AIs have complied with paragraphs 15.3A and 15.3B of the SFC's Code of Conduct



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Quote (RFQ), unless otherwise specified. This is because RFQ transactions have the following characteristics:

- (i) you approach and request us to provide you with quotes;
- (ii) you have ready access to a number of different dealers to provide you with quotes;
- (iii) you have transparency of the prices at which transactions can be effected in the market or the product is bi-lateral in nature.

#### **2.4 Exclusive use of affiliates, connected parties and third parties**

From time to time, DBS Hong Kong may engage our affiliates, connected parties or third parties to facilitate the execution of your order. For example, where the products traded are overseas securities which were not directly accessible by DBS Hong Kong. We transact on a principal basis and use execution venues and brokers generally to clear our own market risks, therefore you will be dealing with either us or one of our other offices or affiliates. All intra-group transactions are priced at arm's length. For third parties (such as external brokers), DBS Hong Kong is subject to internal policies and procedures for proper due diligence, monitoring and controls to be conducted on such third parties-

#### **3. Conflict of Interests that may arise from the sale of "in-house" product**

DBS Hong Kong is committed to upholding a high level of integrity and adhering to best practices and requirements published by relevant international groups and regulatory bodies in its dealings with clients. Sometimes, DBS Hong Kong and/or our affiliates may undertake a variety of roles in a transaction, which may result in potential and/or actual conflicts of interests arising from these different roles. If DBS Hong Kong acts in circumstances where it has a conflict of interest, DBS Hong Kong will manage its activities through the relevant policies, procedures and other controls it has in place to mitigate these conflicts. DBS Hong Kong, in its discretion, may also decline to act in such circumstances.

In addition, you should also note that in respect of any over-the-counter derivative transactions and sale and purchase of structured investment products (including without limitation, products in deposit format or structured notes), DBS Hong Kong only offers in-house products, which means there is a limited availability of in-house products which may be offered to you.

This regulatory disclosure statement may be updated from time to time in order to address changing regulatory, industry, business and other developments.

If you have any concerns about anything contained in this regulatory disclosure statement, please contact your sales person at our Treasury & Markets unit for assistance and/or seek independent professional advice as necessary.

Dated: 31 March 2019