

## ORDER EXECUTION POLICY

VERSION: SEPTEMBER 2019

### Introduction

This is the Order Execution Policy (the “**Policy**”) referred to in Arrow Futures (UK) Limited’s Terms of Business (the “**Terms**”). This Policy should be read in conjunction with the Terms. Capitalised terms in this Policy have (unless the context otherwise requires) the meaning given in the Terms.

As detailed in the Terms, clients are deemed to have consented to their transactions being handled in accordance with this Order Execution Policy.

### Background

As required by the Markets in Financial Instruments Directive II (“**MiFID II**”), this Policy sets out Arrow Futures’ and its branches’ (collectively referred to in this document as “**Arrow**” or the “**Firm**”) order execution policy and explains how Arrow takes all sufficient steps to obtain the best possible outcome for clients who are legitimately relying on Arrow for the execution or receipt and transmitting of client orders in financial instruments as defined in Annex 1 Section C of MiFID II (“**Best Execution**”).

For the purposes of this Policy, an “**order**” is an instruction to buy or sell a financial instrument that is accepted by Arrow for execution or transmission to a third party and which gives rise to an agency or contractual obligation on Arrow to the client.

### Employee Obligations

This Policy applies to (and shall be adhered to by) all employees of Arrow.

### Application of Best Execution Obligation

Arrow is obliged to provide Best Execution taking into account the execution factors (noted below) where Arrow acts on behalf of a client.

Following a reasonable request from a client, Arrow shall provide additional information about this Policy and the execution venues listed herein.

Whenever there is a specific instruction from a client with regard to an order, Arrow shall execute the relevant order by following the specific instruction and Arrow’s compliance with such specific instruction will be treated as satisfaction by Arrow of the Best Execution obligation.

### Client Types

A client’s categorisation will be determined by Arrow and notified to the client by way of a client categorisation letter. A client’s regulatory classification influences the determination of whether a client is ‘legitimately relying’ on Arrow to protect their interests, and as such whether Best Execution is owed to them. In particular: (i) Retail clients are always deemed to legitimately rely on a firm (however, Arrow does not act for Retail clients); (ii) the Best Execution obligation is deemed not to apply when dealing with Eligible Counterparties; and (iii) with regard to Professional clients, Arrow applies the following four fold test in order to determine whether a Professional client is ‘legitimately relying’ on Arrow in relation to a particular client order and therefore whether Best Execution is owed:

1. Which party initiates the transaction (where Arrow initiates the transaction the client is more likely to be placing ‘legitimate reliance’ on Arrow).
2. Market practice and a client’s ability to look to other providers for Best Execution. In certain wholesale markets there is a common practice or convention to shop around and obtain quotes from a number of dealers prior to a client executing a transaction. Existence of such practice indicates that a client is less likely to place a legitimate reliance upon a firm for Best Execution of the order.
3. The relative levels of price transparency within a market (in certain markets transparent prices may not be readily available to clients, and this indicates that the Best Execution obligation is more likely to apply).

4. The information provided by Arrow and any agreement reached.

Arrow recognises that Professional clients will be relying on Arrow to provide Best Execution and Arrow will therefore execute their order in line with this policy. However, in certain circumstances (as detailed below), Arrow's determination of the relative importance of the execution factors may vary.

**Best Execution Factors and Criteria**

Arrow shall adhere to Best Execution requirements when executing client orders or when routing them to other market venues, and will take steps to achieve the best result in accordance with this Policy.

When determining the strategy for execution of a client's order Arrow will take into account certain factors including: (i) price; (ii) the need for timely execution; (iii) market liquidity; (iv) the size of the order likelihood of execution; (v) settlement; (vi) costs of the transaction<sup>1</sup>; (vii) nature of the transaction, including whether it is executed on a regulated market; (viii) multilateral trading facility or over the counter; and (ix) any other consideration relevant to the execution of the order.

In the absence of specific instructions from the client, Arrow will exercise its own judgment, skill and experience (having regard to available market information) when determining how to provide the client with Best Execution.

The diverse markets for different financial instruments and the types of orders that clients place with Arrow means that different factors could be applicable in each case when Arrow considers its execution strategy for each order received. For example: (i) there is no formalised market for some over the counter transactions; (ii) in some markets price volatility may mean that timeliness of execution is a priority; and (iii) in an illiquid market, the fact of execution may itself constitute Best Execution.

In extreme volume and volatility situations, exchange system constraints may require automated trading systems to be switched off and/or electronic routing to be suspended in favour of manual execution. Such events lead to further execution delays and increased market volatility.

When executing a client's order, as well as the factors relevant to the client's order Arrow will take into account the following 'Execution Criteria': (i) characteristics of the client; (ii) characteristics of the client's order; (iii) characteristics of the relevant financial instrument; and (iv) characteristics of the execution venues to which the order can be directed.

In general, Arrow regards price as being one of the most important considerations when seeking to obtain the best possible result for clients. However, in certain circumstances Arrow may decide in its absolute discretion that other factors noted above may be more important than price when determining the best possible result in accordance with this policy.

In addition, the nature of the financial instrument to which the order relates may dictate the determination and ranking of the relative importance of the execution criteria.

**Weighting of Execution Factors**

In some cases, the number of execution venues that the client's clearing member has access to will govern the range of factors open to Arrow for execution. Where the client's clearing member only has access to a single venue we will take the order as a specific instruction as detailed within this Policy.

Where there is more than one venue available, we will typically place weighting in order of importance in the following order: (i) price; (ii) size; (iii) likelihood of execution; (iv) costs; (v) speed of execution; (vi) any other relevant factors. These may vary given any of the following factors mentioned within this policy including: (i) volatility – any factor may override another in terms of importance; (ii) unusual market conditions – speed and likelihood of execution will take precedence; (iii) timing – when the order is

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<sup>1</sup> The costs of transaction include all expenses incurred by the client that are directly relating to the execution of orders, including in particular execution venue fees, clearing and settlement fees, and any other fees paid to third parties involved in the execution of the order. Arrow will also take into account its own commission and costs for executing the order on each eligible execution venue.

received its size may mean speed and likelihood of execution will become more important; and (iv) lack of liquidity – here speed and likelihood of execution will take priority.

### **The Role of Price**

It is the general policy of Arrow for all client transactions not to give execution factors other than price and costs precedence unless they are instrumental in delivering the best possible result in terms of total consideration to the client.

### **Execution Venues**

Subject to any specific instructions from a client, Arrow may use one or more venues and basis of execution to enable it to obtain the best possible result on a consistent basis when executing an order on the client's behalf.

Please refer to Annex I of the Policy for a list of execution venues used by Arrow.

Where applicable, whenever a client places an order with Arrow, Arrow shall be entitled in its absolute discretion and without reference to the client to select the venue for executing the order. Subject to any specific instructions, in order to select an execution venue for an order Arrow will apply the following methodology: (i) when carrying out orders on a Regulated Market, Multilateral Trading Facility ("MTF"), or Organised Trading Facility ("OTF"), Arrow will select the execution venue that it considers the most appropriate; and (ii) for financial instruments admitted to trading on a Regulated Market, MTF, or OTF where Arrow believes an order can be executed to a client's advantage (or at no disadvantage to a client), Arrow may execute an order on an execution venue that is outside a Regulated Market, MTF, or OTF. Arrow will take such steps to not structure or charge clients in such a way as to discriminate between execution venues.

Arrow may receive fees from those execution venues set out in Annex I where (directly or indirectly) it submits a transaction to them. Details of such fees are contained in Arrow's Execution Venue Fee Information Document, a copy of which is available (upon request) to those clients who are subject to the Terms.

### **Aggregation of Orders**

Arrow will execute an order as soon as it is received. This means that Arrow will prioritise all incoming orders according to the time they were received unless Arrow (in its opinion) believes that combining orders with those received from either clients or third parties that are not clients of Arrow is expedient and that there will be no drawback to the client in the context of this Policy.

### **Additional Disclosures**

Arrow does not accept payment for order flow and save as disclosed will not receive any remuneration, discount or non-monetary benefit for routing a client order to a particular execution venue which would infringe the conflicts of interest or inducement laws relevant to Arrow.

Arrow uses a number of venues and markets which provide, upon a trade, a commission to Arrow for executing that trade. Arrow does not account to the client for that commission.

In particular, Arrow may receive fees from those execution venues set out in Annex I where (directly or indirectly) it submits a transaction to them. Details of such fees are contained in Arrow's Execution Venue Fee Information Document, a copy of which is available (upon request) to those clients who are subject to the Terms.

### **Order Execution Risks**

#### **Slippage**

Arrow takes sufficient steps so that execution of the quoted prices will obtain the best possible result for clients at the time the quote is provided; however, market factors, such as liquidity, fastmoving markets etc. may result in execution of a transaction at a price which has ceased to be the best market price.

### Time/Price variances

In many markets there are many swings in price variances at times of the day for a variety of reasons, as such the “last traded” price may not be available and should not be relied upon as an indicator of current pricing or the availability of trading at that price.

### Gapping/Volatility

There may be significant market movement after a news announcement or economic event or between the close and re-opening of a market, which will have a significant impact on the execution of a pending order. Clients should be aware of the following risks associated with volatile markets, especially at or near the close of the standard trading session: (i) an order may be executed at a substantially different price from the quoted bid or offer or the last reported trade price at the time of order entry; (ii) an order may be only partially executed or may be executed in several shapes at different prices; and (iii) opening prices may differ significantly from the previous day’s close.

### Trading System or Internet Connectivity Execution Delays

Delays in execution beyond the Firm’s control may occur as a result of technical failures or malfunctions in connection with use of Arrow’s facility or internet connectivity or processing speed, for which the Firm does not accept responsibility.

### Order Handling

Arrow’s order handling has been designed to process the client’s order as quickly and efficiently as possible, while delivering all the relevant details to the Firm’s systems to help ensure acceptance and Best Execution of the order.

Below are some of the types of orders the Firm handle: **Market Order** – A market order is an instruction to buy or sell at the next available market price. Please note that pursuant to market conditions there may be a difference between the price selected on Arrow’s systems and the final execution price received. This difference may be less favourable or more favourable than the original quoted price and is a function of market liquidity.

**Limit Order** – A limit order is an instruction to buy or sell at a specified price or better and may be used to either open or close a position. Please note that a limit order may be triggered by the market trading through, or gapping over the specified price. In the event that market conditions trigger a client’s limit order for execution it may only execute at a price equal to or better than a client’s specified rate. A limit order guarantees price but does not guarantee execution.

A limit order to buy at a price below the prevailing market price will be executed at a price equal to or less than the specified price.

A limit order to sell at a price above the prevailing market price will be executed at a price equal to or more than the specified price.

**Stop Order** – A stop order is an order to buy or sell at a specified price and may be used to open or close a position. Please note that a stop order may be triggered by the market trading through, or gapping over a client’s specified price. In the event that market conditions trigger a client’s stop order for execution it will become a market order upon execution. This means that a client’s final execution price may be less favourable, or more favourable depending on market conditions. Stop orders guarantee execution but do not guarantee price.

A stop order to buy at a price above the prevailing market price will be executed at the next available market rate, which may be less favourable, or more favourable than a client’s specified rate.

A stop order to sell at a price below the prevailing market price will be executed at the next available market rate, which may be less favourable, or more favourable than a client’s specified rate.

**Trailing Stop Order** – A trailing stop order is a stop order applied to an open position where the client specifies the distance between the stop order and current market price. Should the market continue to move in a client’s favour the stop price will automatically update to maintain the specified stop distance

from the current market price by adjusting a client's stop rate. However, should the market at any time move against the client the stop price will remain fixed acting as a floor. At that time should the market trade through or gap past a client's specified stop rate a client's order will be submitted for execution as market order available for execution at the next available market price.

Arrow cannot allow clients to trade in a market unless it is reasonably satisfied that the client has the ability to trade on the relevant market and is operationally capable of settling the relevant trade.

Furthermore, Arrow cannot control the cost of credit or the acceptance of credit between clients.

### **Specific Instructions**

Whenever a client gives a specific instruction to Arrow as to the execution of its order, Arrow will execute that order in accordance with the client's specific instructions. In following those specific instructions, Arrow will be deemed to have satisfied its Best Execution obligations in respect of that part of the order to which the specific instructions relate. If a client requires its order to be executed in a particular manner, it must clearly state its desired method of execution when it places its order with Arrow. To the extent that the client's specific instructions are not comprehensive, Arrow will determine any non-specified aspects in accordance with this Policy.

It should be noted that specific instructions from a client might prevent Arrow from taking the necessary steps it has set out in this Policy to obtain the best possible outcome for the execution of those orders in respect of the elements covered by those instructions.

### **Monitoring and Review**

Arrow will monitor the effectiveness of its order execution arrangements and this Policy at least annually and whenever there is a material change that affects the Firm's ability to obtain Best Execution for clients. Additionally, Arrow will regularly assess whether or not the execution venues it accesses continue to be capable of providing the best possible results for orders it executes on behalf of clients. Arrow will also publish annual quality of execution reports.

Using a risk-based approach Arrow will review, at least annually or when a material change occurs, both its order execution arrangements and this Policy.

Arrow will notify clients and potential clients of any material changes to the Policy through the company's website.

Arrow will be able to check the fairness of the price proposed to the client by gathering market data used in the estimation of the price of such product and when possible by comparing with similar or comparable products. Arrow will also be able to demonstrate, upon request, that the client's order was executed in accordance with this Policy.

By entering into the Terms, a client consents to the Arrow Order Execution policy and confirms that Arrow does not owe the client any fiduciary duty and that the client remains responsible for all trading decisions and that Arrow will not be liable for any trading losses you suffer as a result of those decisions.

## **Annex 1 Execution Venues**

Arrow uses the following execution venues when obtaining best execution in accordance with this Policy. This list is not exhaustive and will be subject to change. Arrow may also use other venues where it deems appropriate in accordance with the Policy.

<b>Product</b>	<b>Exchange Venue</b>
Dry FFA Futures	SGX, EEX, Nasdaq