

ARROW ENERGY MARKETS (UK) LIMITED
ORDER EXECUTION POLICY

1 Introduction

Under the rules of the Financial Conduct Authority and MiFID II, Arrow Energy Markets (UK) Limited (**AEM** or the **Firm**) is required to take all sufficient steps to obtain the best possible results when executing orders or transmitting orders for execution on behalf of its clients (i.e. to provide “Best Execution”).

This Order Handling Policy (the **Policy**) provides a summary of AEM’s approach to Best Execution and should be read in conjunction with AEM’s Terms and Conditions of Business.

2 Scope

2.1 Clients

This Policy applies to clients who have been categorised in writing by AEM as “Professional Clients”. The Firm will not owe Best Execution for transactions entered into with clients who AEM have categorised as “Eligible Counterparties”.

2.2 Financial Instruments

This Policy only applies with respect to “Financial Instruments” as defined in MiFID II, which includes, but is limited to: transferable securities (such as shares and bonds), money market instruments, units in collective investment undertakings, and exchange-traded and OTC derivatives, whether cash or physically settled, including futures, options and swaps. As a wholesale agency broker, AEM trades in commodity options, swaps and futures –which fall within the regulatory scope for Best Execution.

2.3 Legitimate reliance

Best Execution will be owed whenever a client places legitimate reliance upon AEM to protect their interests in relation to the pricing and other elements of a transaction.

2.4 When Best Execution is owed

Where AEM concludes that it is under an obligation to provide Best Execution, AEM will take all sufficient steps to do so in accordance with both this Policy and with relevant rules and regulations. This does not mean that AEM assumes or accepts any fiduciary, contractual or other duty to provide Best Execution except in accordance with those rules and regulations. For these purposes, “all sufficient steps” means that the Firm will satisfy itself that it has processes and procedures in place that lead to the delivery of the best result on a consistent basis when it owes best execution to clients and will take all sufficient steps to follow those processes and procedures.

3 Determining legitimate reliance

3.1 In order to determine whether a client is placing legitimate reliance upon AEM, AEM will consider all relevant circumstances of the transaction, including the following non-exhaustive list of factors (also known as the ‘Four Fold’ Test’). All four parts of the Four Fold Test will be considered. However, AEM is not required to satisfy all four parts in order to conclude that legitimate reliance is not being placed nor can such a conclusion be reached on the basis of a single part of the test. Instead, AEM will assess the circumstances as a whole to determine whether legitimate reliance exists.

3.1.1 Which party initiates the transaction

AEM considers that, where a transaction is initiated by a client, the client is generally not relying on AEM to achieve Best Execution. In the ordinary course of business, a transaction will be treated

as client-initiated where AEM provides indicative or firm pricing in response to a client request and the client subsequently elects to deal on that basis, having full discretion as to whether they accept the price offered. By contrast, general communications with a client will not necessarily constitute client-initiated trading. For example, a client may contact AEM to request market colour or discuss market trends without initiating a transaction. Accordingly, AEM does not assume that a transaction is client-initiated solely because a client has contacted the Firm.

3.1.2 Market practice

It is general market practice that clients will seek quotes from multiple brokers, i.e. to 'shop around'. In these circumstances, it is less likely there is any expectation between the parties that the broker will owe Best Execution when providing quotes to its clients.

3.1.3 The relative levels of transparency within a market

Block trades are arranged bilaterally via a voice-broking model and, as a result, exhibit lower levels of pre-trade price transparency than orders executed in a central limit order book. In particular, the negotiated price may not be visible to the wider market prior to execution, transactions are agreed privately between counterparties, and market participants do not have access to firm executable quotes for the block prior to reporting. Notwithstanding the absence of pre-trade transparency, exchange rules require block trades to be reported within prescribed timeframes and within price benchmarks set by the Exchange.

Clients gain an understanding of the going market prices by collating the various responses to discussions with multiple brokers. AEM has concluded that the shopping around convention enables clients to form accurate views on market pricing.

3.1.4 The information provided by AEM about its services and any agreement reached.

AEM does not, under its terms of business or policies, owe a duty of Best Execution beyond its regulatory obligations. However, where AEM enters into a bespoke agreement with a client, AEM may agree to owe a duty of Best Execution in respect of all transactions with that client. Any such agreement must be approved in advance by AEM's Head of Compliance.

- 3.2 As noted above, AEM is not required to satisfy every part of the Four Fold Test in order to determine whether legitimate reliance is being placed. Equally, it cannot reach such a conclusion by reference to any single part of the test alone. AEM must consider all parts of the test and make a reasonable, holistic assessment based on the circumstances.

AEM will generally consider that legitimate reliance is not being placed where parts 1 and 4, and either parts 2 or 3 of the Four Fold Test have been satisfied. In these circumstances, the client has discretion to accept or reject a price, has visibility of broader market pricing, and is not contractually entitled to expect AEM to owe a duty of Best Execution beyond its regulatory obligations.

4 When will AEM owe a duty of best execution?

- 4.1 AEM will owe a duty of Best Execution where it concludes that a client is placing legitimate reliance on AEM. This may arise in the following non-exhaustive circumstances:

- Where a client provides an indicative price range within which a broker is authorized to execute an order, giving the broker discretion to seek the best price or outcome of an order.
- Where a broker executes an order outside the client's original instructions in response to an unexpected and market-shifting event which would lead to a poor outcome if the original order was executed (and where the client has agreed that the broker can take such initiative in certain circumstances). Again, this places responsibility onto the broker, not the client.
- Where a broker identifies a market opportunity that may be advantageous to a client and the client has provided the broker with discretion to act on such opportunities, thereby delegating execution responsibility to the broker.
- Where AEM has entered into a bespoke client agreement under which AEM has agreed to owe a duty of Best Execution in all circumstances.

4.2 Specific instructions

If AEM receives an order from a client that includes specific instructions in relation to the handling and execution of the entire order, or particular aspects of the order (for example, executing at a particular price or time or through the use of a particular strategy) then, subject to AEM's legal and regulatory obligations, the Firm will execute the order in accordance with that specific instruction, even if doing so may prevent the Firm from achieving the best possible result for the client. AEM's obligation of Best Execution will be satisfied by executing the order in accordance with the client's specific instructions. Where the client's specific instructions cover only a part of or an aspect of the relevant order, AEM will continue to apply the Policy to those aspects of the order that are not covered by the specific instructions.

5 Execution factors

Where AEM is required to provide Best Execution in relation to a transaction, it must consider certain execution factors as part of taking all sufficient steps to achieve the best possible result. These are as follows:

- **Price:** the price at which a financial instrument is or may be executed;
- **Cost:** this may include implicit costs (such as potential market impact), explicit external costs (for example, exchange or clearing fees), and explicit internal costs which represent the Firm's own remuneration through commission or spread;
- **Speed:** the time it might take to execute a transaction;
- **Likelihood of execution and settlement:** the likelihood that the Firm will be able to execute and settle a client transaction;
- **Size:** the size of the transaction, which the Firm may take into account where this affects the price of execution; and
- **Any other relevant considerations:** any other factors relevant to execution, such as the characteristics of execution venues or market impact.

5.1 Relative importance of execution factors

The applicability of, and relative importance attached to, each execution factor will vary depending on the type of transaction being executed and any instructions provided by a client. AEM will take into account the following criteria when determining the relative importance of the execution factors:

- the characteristics of the client, including the client's regulatory categorisation;
- the characteristics of the order;

- the characteristics of the Financial Instruments that are the subject of the order; and
- the characteristics of the execution venues to which the order may be directed.

Generally, AEM considers price and costs (together, total consideration) to be the most important execution factor for its Professional Clients. However, there may be circumstances where other execution factors take precedence. Set out below is a non-exhaustive list of examples where this may occur:

- **Speed:** Where a market is moving quickly, AEM may prioritise speed of execution to avoid delays and allow clients to benefit from an upward market trend.
- **Likelihood of execution and settlement:** Where market volatility threatens the likelihood of an order being executed or settled, AEM may prioritise completion of orders over price or other factors, even if that results in a price premium.
- **Size:** Where a client approaches AEM with an order which is materially larger than their usual order size and/or the order is materially larger than market averages, then AEM will prioritise execution strategies that seek to achieve the best outcome for an order of that size without adversely affecting the market price.

For example, in illiquid markets, the size of the transaction and likelihood of execution and settlement may take priority. In determining the relative importance of the execution factors, AEM will use its experience and expertise to achieve the best overall outcome across all factors. As AEM Firm has discretion in how to apply the different execution factors, this may result in a range of different permissible approaches to executing the client orders.

6 Order Execution Risk

Set out below are key order execution risks that may affect the execution of client orders, notwithstanding AEM's obligation to take all sufficient steps to achieve best execution for clients.

Slippage

AEM takes sufficient steps to ensure that that execution of quoted prices achieves the best possible result for clients at the time a quote is provided. However, market conditions, such as limited liquidity or fast-moving markets may result in the execution of a transaction at a price which has ceased to be the best market price.

Time and Price variances

In many markets, price can fluctuate significantly during the day for a variety of reasons. As a result, the "last traded" price may no longer be available and should not be relied upon as an indication of current market pricing or the availability of trading at that price.

Gapping and Volatility

There may be significant market movement following news announcements, economic events, or between the close and re-opening of a market. These movements may have a material 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 a 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 tranches at different prices; and (iii) opening prices may differ significantly from the previous trading day's closing price.

7 Execution venues

Given the nature of AEM's business model, instruments that the Firm deals with may not be available for trading on a trading venue. Client orders may be executed by AEM on their behalf outside a trading venue (i.e. over-the-counter) through a bilateral agreement between the two counterparties to a transaction, or they may be executed by way of blocking onto a regulated exchange such as ICE.

In accordance with the rules of the relevant regulated exchange (such as ICE), transactions that are submitted to ICE for clearing as a block (i.e. a block trade) would be considered to be traded on a trading venue as they are conducted under the rules of the exchange.

In respect of block transactions, once terms are agreed, the transaction will be sent to the relevant regulated exchange such as ICE for clearing. Unless AEM has received specific instruction from the client to use a different exchange or clearing venue, in the absence of specific client instruction, AEM will select the venue according to the prevailing market convention for the relevant financial instrument.

For the avoidance of doubt, AEM does not operate as a trading venue, rather, it will act as an intermediary, connecting buyers and sellers.

7.1 Transactions cleared on a regulated exchange as a block

In accordance with the rules of a regulated exchange, such as ICE, transactions that are submitted to ICE for clearing as a block (i.e. a block trade) would be considered to be traded on a trading venue as they are conducted under the rules of the exchange.

8 Order Handling

AEM has procedures and arrangements in place to ensure that:

- client orders are dealt with promptly, fairly and expeditiously;
- otherwise comparable orders are executed sequentially; and
- in the event of a conflict, the interests of clients are prioritised over AEM's own interests.

Due to the nature of AEM's business, orders are not generally aggregated. However, where aggregation does occur, AEM has procedures and arrangements in place to ensure that no client is disadvantaged as a result. This Policy serves as notification to clients that AEM reserves the right to aggregate orders where necessary. Where aggregated orders are only partially executed, assets will be proportionally allocated to all clients included in the aggregated order.

9 Monitoring and Review

AEM reviews a sample of transactions on a regular basis to verify that, where a Best Execution obligation applies, all sufficient steps were taken to obtain the best possible result for the execution of client orders. Where a client wishes to query the execution of one or more of its orders, AEM will, on request, demonstrate that the relevant order was executed in compliance with the Policy.

AEM will review the effectiveness of its execution arrangements and this Policy at least annually to identify and, where appropriate, remedy any deficiencies. AEM will also review this Policy where a material change occurs that affects its ability to continue to obtain the best possible result for clients. If, as a result of any review, AEM makes any material changes to this Policy or AEM's execution arrangements, clients will be notified accordingly.

10 Client's consent on the Policy

AEM is required to obtain its clients' prior consent to this Policy. Clients will be deemed to have provided such consent when they place an order with the Firm following receipt of the client onboarding documents, which includes a link to, or copy of, this Policy.