
Jefferies Asia

JHKL, JIL, JSL APAC Order Execution Policy

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Jefferies Asia

Jefferies

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I. INTRODUCTION

As required by the relevant Asia regulators, this document (the “Policy”)¹ sets out the Order Execution Policy for Jefferies Hong Kong Limited, Jefferies Japan Limited and Jefferies Singapore Limited (collectively referred to as “Jefferies”) and arrangements for complying with the obligation to take all sufficient steps to obtain the best possible outcome for their client’s orders (so called ‘best execution’). As detailed in Jefferies Terms of Business, clients are deemed to have consented to their transactions being handled in accordance with this Order Execution Policy.

II. SCOPE

Jefferies is required to put in place an Order Execution Policy, and to take all sufficient steps to obtain the best possible outcome for clients who are relying on Jefferies for the execution or receipt and transmitting of client orders in financial instruments. This policy applies to Jefferies in respect of (a) agency or back-to-back principal transactions² with clients, and (b) applicable principal transactions with clients subject to the Four-fold Test as stated below.

This policy deals with the activities of Jefferies Sales and Trading divisions, covering Cash Equity Products, Fixed Income Products, and related OTC Products.

III. WHAT TYPE OF CLIENTS DOES BEST EXECUTION APPLY TO?

A client’s regulatory classification, as detailed below, may impact the determination of whether a client is relying on Jefferies to protect their interests, and as such whether best execution is owed.

- **Institutional Investors in Singapore:** The best execution obligation is deemed not to apply when dealing with Institutional Investors as defined under section 4A(1)(c) of the SFA.
- **Professional Investors in Japan:** Disclosure about conditions under which client orders are routed to Dark Pools, information about Dark Pool operators that Jefferies Japan connects to, and Dark Pool execution report (upon client’s request) are required under the Japanese Dark Pool regulations. Besides, disclosure of activities of Smart Order Routing, and Dark Pools or alternative trading venues that Jefferies Japan Limited connects to is required to be included in Jefferies Japan’s Best Execution Policy under the Japanese Best Execution regulations, but delivery of the Policy to professional investors is not mandated.
- Each specific principal transaction with a client (other than those mentioned above where best execution is not applicable) needs to be assessed to decide as to whether the client is relying on Jefferies to protect their interests:
 - **Four-fold Test:** To determine whether a client is relying on Jefferies in relation to a particular client order (whereby best execution is therefore owed to the client), the following four factors are considered collectively by Jefferies:
 - **Which party initiates the transaction:** where it is Jefferies that ‘initiates’ a transaction, the client is more likely to place reliance on Jefferies. In this context, ‘initiate’ means where Jefferies approaches a client regarding a potential transaction;
 - **Market practice and the existence of a convention to ‘shop around’:** In certain markets, there is a common practice or convention to ‘shop around’ and obtain quotes from several dealers prior to a client executing any transaction. The existence of such a practice indicates that a client is less likely to place reliance upon Jefferies for best execution of the order (for example, bond markets and OTC markets feature ‘shop around’ practices);
 - **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; and
 - **Whether disclosure has been made to clients that no best execution is provided.**
 - Section IV provides further guidance as to how best execution applies to clients, with various trading scenarios and examples provided.

¹ This Compliance Policy supersedes all prior policies, reminders, procedure manuals, desk procedures, memos etc. (Policies) regarding this subject matter, including Policies created by the Business. If such Business or other Policies are inconsistent with the information in this Compliance Policy on the subject matter, then this Compliance Policy supersedes.

² Under paragraph 8.3 part A of the SFC Code of Conduct, back-to-back transactions refer to those transactions where a licensed or registered person, after receiving –

(a) a purchase order from an investor, purchases an investment product from a third party and then sells the same investment product to the investor; or
(b) a sell order from an investor, purchases an investment product from the investor and then sells the same investment product to a third party, and no market risk is taken by the licensed or registered person.

All Jefferies employees who either execute applicable client orders or pass applicable orders for execution to other entities must ensure such activities are conducted in accordance with this Policy.

IV. BEST EXECUTION – APPLICATION TO CLIENTS

Where a client relies on Jefferies to protect their interests in relation to the relevant elements of a transaction that may be affected by how Jefferies, or the entity to which the order is transmitted, executes the order, then the best execution obligation will apply. For example, a best execution obligation would likely apply where Jefferies execute an order by:

- dealing as agent (e.g., Jefferies transmits an order for execution to a third party or Jefferies execution desk).
- dealing as back-to-back principal; and
- ‘working’ an order on behalf of a client (e.g., where Jefferies make decisions as to how the order is executed).

Please be aware that there are many circumstances, particularly in bond markets, where a client will not be relying on Jefferies to protect its interests, and consequently where the best execution obligation will not apply.

Detailed below are the main asset classes that Jefferies trade, further analysed into key trading scenarios, along with an assessment for each of whether the best execution obligation applies or not. Such assessments are provided for guidance only, and do not apply in all circumstances. Where specific instructions are provided by a client then the best execution obligation will only apply to parts of the order – see Section VII.

Equities – Cash Products (Shares, Convertible Bonds etc.): When dealing in Equities cash products, Jefferies acts in various capacities, though primarily as either agent or on a back-to-back principal basis and in these instances, the best execution obligation is deemed to apply. However, Convertible Bonds primarily trade on a request for quote basis. For such products, it is a market convention to ‘shop around’ and obtain a quote from several different dealers prior to execution, and Jefferies’ clients would, as standard, have access to various sources providing them with a high degree of market transparency. The best execution obligation would generally not be owed to clients executing transactions via such request for quote processes.

Equities – Derivative Products (e.g. Swaps):

In the absence of specific instructions from clients (see Section VII below), as long as the price of the financial instruments would be referenced to the execution price of the underlying securities at the market (e.g. the swap hedge), best execution obligation would be owed to the clients.

Fixed Income (Government Bonds, Corporate Bonds, etc.): Jefferies acts as market maker on a principal-to-principal basis under several differing trading scenarios, which cover both traditional ‘high touch’ and electronic ‘low touch’ channels, the most significant of which are summarised below:

- **Firm Executable Quotes - Via Regulated Markets, Multilateral Trading Facility (“MTF”) or Organised Trading Facility (“OTF”):** Where Jefferies quote executable prices via regulated markets, MTFs or OTFs and subsequently transact on a principal-to-principal basis with a client who has accepted Jefferies’s quote, then the best execution obligation would not be owed.
- **Request for Quote - Via MTF/OTF/e-Trading Platform:** MTF/OTF/e-trading platforms offer Request for Quote functionality whereby several dealers offer executable (for limited timeframes) prices in competition, which are displayed concurrently to the client. The best execution obligation would generally not be owed to clients executing transactions via such electronic request for quote processes.
- **Request for Quote – Via Non-Electronic Methods:** Jefferies trade Fixed Income cash products with clients on a request for quote principal-to-principal basis without using a regulated market, an MTF, an OTF or e-Trading Platform to facilitate the transaction. For such cash bond markets, it is a market convention to ‘shop around’ and obtain a quote from several different dealers prior to execution, and clients would, as standard, have access to various sources providing them with a high degree of market transparency.
- In such circumstances, where trading has been undertaken via phone, Bloomberg chat, email or another equivalent medium, the best execution obligation would in most instances not be deemed to apply, even where the resultant transaction is executed through a regulated market/MTF/OTF. There are, however, certain request for quote non-electronic sub-scenarios where the best execution obligation is deemed to apply though please note that we expect this to be in limited circumstances. These include:
 - **‘Working’ an order on behalf of a client:** Where Jefferies take a client order and ‘work’ it in the market, looking to identify relevant securities from other market sources, then Jefferies are deemed to be making decisions as to how the order is executed, and the best execution obligation will apply.
 - **Captive Client:** Where a client is not able to ‘shop around’ nor able to find other quotes. In such circumstances the client is deemed to rely on Jefferies to protect its interests in relation to the transaction, and as such the best execution obligation will apply.

Note that where Jefferies does not owe a best execution obligation, Jefferies will still be obliged to treat you fairly and manage any conflicts of interest.

V. ACHIEVING BEST CLIENT OUTCOMES

When the best execution obligation applies and Jefferies is executing or receiving and transmitting orders in relation to financial instruments on behalf of a client, Jefferies will take all sufficient steps to achieve the best possible result for the client. This means that Jefferies is required to have in place policies and procedures that are designed to obtain on a consistent basis the best possible outcome for execution of client orders, subject to and considering the nature of the client orders, the priorities placed on Jefferies in filling those client orders and the nature of relevant markets. Jefferies will ensure that clear instructions are received from clients on the relevant aspects of an order that Jefferies executes on a client's behalf, so that where there is a reliance on us for best execution, Jefferies will comply with its best execution obligations.

In taking all sufficient steps, Jefferies will look to achieve the best balance across a range of possible conflicting execution factors. This does not mean achieving the best outcome for every individual client order, but the best possible outcome on a consistent basis.

In extreme volume and volatile situations, trading venue system constraints may (depending upon the client's instruction) 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. Clients should be aware that in such volatile markets, especially at or near the close of a standard trading session, 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. In addition, an order may only be partially executed or may be executed in several shapes at different prices; and opening prices may differ significantly from the previous day's close.

VI. ORDER EXECUTION FACTORS

When determining the strategy for execution of a client's order, Jefferies will take into consideration certain 'Execution Factors' as appropriate, in the context of the terms of the client's order. The 'Execution Factors' that Jefferies may consider include, but are not limited to:

- price
- speed
- market liquidity
- size of the order
- likelihood of execution and settlement
- costs of the transaction
- market impact
- nature of the transaction
- any other consideration relevant to the efficient execution of the order

Jefferies considers the following criteria when determining the relative importance of the various 'Execution Factors':

- characteristics of the client's order (market order, limit order etc.);
- characteristics of the financial instruments that are the subject of the order (share, bond etc.); and
- characteristics of any execution venues to which the order can be directed.

In the absence of specific instructions from the client (see Section VII below), Jefferies will exercise its own judgment, skill, and experience, having regard to available market information when determining the 'Execution Factors' that it needs to consider for the purpose of providing the client with best execution.

The diverse markets for different financial instruments, and the types of orders that clients place with Jefferies, means that different 'Execution Factors' could be applicable each time Jefferies considers a particular execution strategy. For example, in some markets price volatility may mean that timeliness of execution is a priority, whereas in an illiquid market the ability to execute the transaction may be the key execution factor.

In general, Jefferies regards price as being the most important consideration when seeking to obtain the best possible outcome for clients in accordance with this Policy. In certain circumstances, Jefferies may decide in its absolute discretion that the other factors noted above may be more important than price. In addition, subject to any specific instructions which are given to Jefferies by a client (see Section VII), the financial instrument to which the order relates often dictates to a large extent the determination and ranking of the

relative importance of the Execution Factors.

VII. SPECIFIC INSTRUCTIONS

Whenever a client gives a specific instruction to Jefferies as to the execution of its order, Jefferies will execute that order in accordance with the client's specific instructions. In following those specific instructions, Jefferies 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 Jefferies. To the extent that the client's specific instructions are not comprehensive, Jefferies will determine any non-specified aspects in accordance with this Policy.

It should be noted that specific instructions from a client may prevent Jefferies from taking the necessary steps it has designed and implemented in this Policy, to obtain the best possible outcome for the execution of those orders in respect of the elements covered by those instructions.

Where a client uses a direct market access ("DMA") system provided by Jefferies (whereby the client selects transaction parameters, including price, client/venue, timing, size etc.), then such clients will be regarded as providing specific instructions to Jefferies in relation to the execution of their order. In such situations, Jefferies, while acting on the client's behalf in providing the DMA service, will be deemed to have satisfied its best execution obligations and the client will be deemed to have given a specific instruction for the whole order by means of the DMA system.

Where an algorithm is used in the execution of a client order then the choice of that algorithm is not considered to be a form of specific instruction. The exception to this being where a client seeks customisation of Jefferies algorithms to meet their own needs, in which case a specific instruction is deemed to have been provided with respect to any such customization.

VIII. EXECUTION VENUES

Subject to any specific instructions from a client, Jefferies may use one or more of the following venues to enable it to obtain the best possible outcome on a consistent basis when executing an order on a client's behalf:

- Primary markets
- Multilateral Trading Facilities (MTFs)
- Organised Trading Facilities (OTFs)
- Alternative liquidity pools, including dark pools operated by exchanges and external brokers
- Proprietary Trading Systems or other lit alternative exchanges
- Internal sources of liquidity (i.e., matching client orders)
- Jefferies and its affiliated companies' trading desks (re proprietary positions, or where acting as a liquidity provider or market maker)
- Third party brokers which may also trade proprietary positions; act as market makers or as liquidity providers.

This list is non-exhaustive, and Jefferies may use an execution venue that is not included on the list, for instance when executing an order for a financial instrument in which Jefferies do not normally transact.

Where applicable, whenever a client places an order with us, Jefferies shall be entitled at its absolute discretion and without reference to the client, to select the venue for executing the order. Subject to any specific instructions, to select an Execution Venue for an order, Jefferies will apply the following methodology:

- When carrying out orders on the venues, Jefferies will select the Execution Venue that it considers the most appropriate considering the different factors affecting the choice of Execution Venue. The order may be executed via a member firm who is a member of the venues;
- For a financial instrument admitted to trading on the venues where Jefferies believes an order can be executed to a client's advantage or at no disadvantage to a client, Jefferies may transmit an order to, or execute an order on, an Execution Venue that is outside the venues;
- For a financial instrument not admitted to trading on the venues, Jefferies will select the Execution Venue that is considered the most appropriate considering the different factors affecting the choice of Execution Venue; and

- Where Jefferies believes that an order can be executed to a client's advantage or at no disadvantage to a client, a Jefferies entity, its affiliate or external broker may be used as the Execution Venue.

Where Jefferies executes an order outside of the venues, there may be increased counterparty risk, i.e., the risk that the counterparty to the transaction does not fulfil its obligations. Additional information about the consequences of orders being executed outside of the venues is available upon client request.

Due to the nature of some of the markets on which Jefferies' clients effect transactions, the execution venues chosen by Jefferies for executing orders are often product driven and there may only be limited venues for the execution of the products. Where necessary and relevant, Jefferies will consider the advantages of indirect access, namely transmitting client orders to another execution intermediary rather than executing those orders itself.

Clients may offer a venue of preference. Where this is unlikely to lead to the best possible outcome, Jefferies will endeavor to provide the client with adequate information, in a fair, clear, and not misleading way, to allow it to make a more informed judgement.

Jefferies commissions and charging structure is designed not to discriminate between venues i.e., client commissions will not vary depending on the venue(s) chosen to execute a client's order. Execution commission is charged to clients at a flat basis points rate. In addition, routing logic embedded into the smart order router is based on liquidity capture, latency or other quality-related factors, not cost of execution. Jefferies receives no payment for order flow nor inducements from any venue. Where Jefferies is the execution venue (i.e., where Jefferies fills the client on risk), it will review the quality of its own execution in the same way as it would for any other execution venue.

IX. ASSET CLASS EXECUTION STRATEGIES

Equities (Shares, Convertible Bonds, Equities Swaps etc.):

- Jefferies Equities desks execute transactions on directly accessed markets, as well as executing with/through approved brokers. The decision as to an appropriate execution venue is undertaken on a trade-by-trade basis, and depends on the reason for the trade, the size of the order, the percentage of average daily volume that the trade represents, the available liquidity in the stock at the time, or any other execution factors deemed relevant by Jefferies traders, Jefferies may utilise algorithms where appropriate depending on the nature of the order.
- For smaller orders, price is the primary execution factor when choosing the appropriate venue as the markets are generally transparent and liquid, with costs being the second key factor.
- For larger orders, price is still the primary execution factor, but liquidity, likelihood of execution, reduction of market impact and speed of execution have greater importance and these execution factors will often drive the traders' decisions as to whether to pass the order to an external broker or to execute directly with a particular execution venue.
- Where the order is to be passed to an external broker for execution, Jefferies will select a broker from those that have been approved based primarily upon price, but also considering the following factors: liquidity capability, clearance and settlement capabilities, quality of service, access to markets, credit worthiness and financial stability. To ensure quick executions and minimum market impact, such orders may be split amongst multiple brokers/venues.
- For Convertible Bonds that are primarily traded on a request for quote basis, the decision as to an appropriate execution strategy is undertaken on a trade-by-trade basis and will depend on the goals of the client. The overarching principle at Jefferies will be to obtain the best possible outcome for the client considering a range of factors. In liquid and transparent markets, price, speed and to a lesser degree market impact are likely to be the primary execution factors in determining whether a client has achieved their goal. For more illiquid securities, while price remains a key consideration, likelihood, and speed of execution as well as executable size and ability to settle, are also key.

Fixed Income (Government Bonds, Corporate Bonds, etc.):

- The decision as to an appropriate execution strategy is undertaken on a trade-by-trade basis and will depend on the goals of the client. The overarching principle at Jefferies will be to obtain the best possible outcome for the client considering a range of factors.
- In general terms, as an asset class, Fixed Income products trade in liquid and transparent markets. Price, speed and to a lesser degree market impact are likely to be the primary execution factors in determining whether a client has achieved their goal. Since commissions are not charged on cash products, costs do not need to be considered in determining best execution.
- For more illiquid Fixed Income securities, Jefferies' access to liquidity in the marketplace may be limited. For such securities, while price remains a key consideration, likelihood, and speed of execution as well as executable size and ability to settle are also key. In these markets, a client's sensitivity to price may be diminished in lieu of the goal to buy or sell a certain quantity within a given timeframe, and in such a scenario achieving the client's goal of prompt execution will likely constitute a significant factor in determining best execution.

X. RECEIVING AND TRANSMITTING ORDERS

When Jefferies receives a client's order and transmits that order to another entity for execution, it will take all sufficient steps to achieve the best possible outcome, in accordance with this Policy, taking account of the factors noted above and any specific instructions received from the client in relation to that order (or a specific aspect of that order). When determining the strategy for obtaining the best possible outcome for a client's order, in the absence of any specific instructions, Jefferies will consider if it is sufficient to simply transmit the order to another entity or whether it is necessary to exercise additional control when instructing the other entity in relation to that client's order. Where an affiliate of Jefferies is the entity to which it transmits a client's order for execution, Jefferies will review the quality of the execution in the same way as it would for any other execution venue.

XI. MONITORING AND REVIEW

Jefferies monitors the effectiveness of its order execution arrangements in a number of ways, including via Best Execution Committees which meet quarterly (these are split out by business area, Equities and Fixed Income) and a yearly best execution framework review.

Jefferies regularly assess whether the execution venues it accesses, and the brokers and dealers to whom Jefferies transmit orders, continue to provide for the best possible outcome for clients.

Equities Monitoring and Review: Jefferies monitoring consists of a combination of real time, post-trade and periodic execution monitoring.

- **Liquidity venue monitoring:** Jefferies undertakes periodic reviews of execution venues regardless of whether Jefferies is connected to the liquidity venue. Factors assessed include universe of securities covered; liquidity; market / sector share capture; post trade set up and structure; types / nature of participants; sustainability of liquidity venue; fee structure; and order placement functionality.
- **Information Content Factor and Information Leakage:** Jefferies monitors the quality of executions from all venues accessed by measuring their toxicity as well as expected versus realized fill rates to assess the level of leakage.
- **Third-party Broker Usage:** When selecting / onboarding a third-party broker as an executing broker in a market where Jefferies does not have a direct trading membership (or as a back-up in a membership market), several factors are considered as part of the selection process, these can include technical infrastructure; technical support; commission rates charged; operational support; counterparty risk; and available limit structure. In most cases the broker selected is only utilized in a Direct Market Access capacity whereby Jefferies is using the third-party broker's technical connectivity/gateway to a trading venue and their membership of that venue to place and execute order flow. In these cases, the broker will not interact with the order flow and Jefferies remains in full control of where and when orders are submitted. Each of these brokers is assessed prior to connectivity being established as well as on an on-going basis. In general for non-ID markets, there is a primary broker and one or more alternate brokers. In the event a technical, or any other, issue occurs with the primary broker, the alternate broker connection can be migrated to the primary location in real time. For ID markets, due to onboarding and other constraints, orders cannot be changed to another broker and the client would be advised to trade away. Jefferies may also use a third-party broker as an executing broker in cases where it does not utilize Direct Market Access, in such cases Jefferies will consider the factors listed above (technical infrastructure; technical support; commission rates charged; operational support; counterparty risk and available limit structure) in its selection process.

Fixed Income Monitoring and Review: Jefferies has implemented a best execution monitoring process. The monitoring system flags for further investigation on trade execution outside of threshold parameter. Jefferies evaluates these exceptions, when applicable, to provide feedback to improve overall best execution performance.

This policy is available at the following link:

[Jefferies - Notices & Policies](#)