

State Bank of India, UK Branch - Best Execution Policy for Per se Professional Clients

Introduction :

1, Best execution is an important part of the Markets in Financial Instruments Directive II (MiFID II). The obligation to achieve best execution is in COBS 11.2A of FCA Handbook , which states that an investment firm must take all sufficient steps to obtain the best possible result for its client when executing a client order. When implementing best execution, investment firms must take into account a number of different factors COBS 11.2A of FCA handbook sets out these characteristics under the obligation to execute orders on terms most favourable to the client, where firms must consider “price, costs, speed, likelihood of execution and settlement, size, nature or any other relevant consideration”. This policy is a part of MIFID Policy of State Bank of India, UK Branch.

2. Objective :

(a) The objective of this policy is to define the obligation on State Bank of India UK to take sufficient steps to obtain the best possible result for SBI's clients when executing client orders. Best Execution Policy shall be applied to each client order that falls within the scope of MIFID II.

In terms of FCA Handbook COBS 11.1.2, Best Execution standards apply to State Bank of India UK Branch in respect of all clients but the objective of the current policy is limited to “Professional Clients” only. SBI UK Branch will restrict its dealings with “Per se Professional Clients” to only four financial instruments viz., Forex Forwards, Forex SWAPs and Interest Rate SWAPs and Interest Rate CAPS/FLOORS

3. Relative Laws and Regulations :

Best Execution policy is guided by FCA Handbook Chapter COBS 11.1.2

4. Definitions:

4.i A regulated market : A multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with Title III of MiFID.

4..ii MTF: A Multilateral Trading Facility (MTF) is a trading system that facilitates the exchange of financial instruments between multiple parties. Multilateral trading facilities allow eligible contract participants to gather and transfer a variety of securities, especially instruments that may not have an official market. These facilities are often electronic systems controlled by approved market operators or larger investment banks. Traders will usually submit orders electronically, where a matching software engine is used to pair buyers with sellers.

4.iii OTF : an Organized Trading Facility any facility or system that is not an MTF or regulated market, operated by an investment firm or market operator in which multiple third party buying and selling interests in financial instruments are able to interact in the system in a way that results in a contract. This includes facilities that are bilateral or multilateral, discretionary and non-discretionary.

4.iv SI: A Systematic Internaliser is an investment firm which, on an organised, frequent and systematic, and substantial basis, deals on its own account (principal trading) by executing client orders outside trading venues: Regulated Market (RM), Multilateral Trading Facility (MTF), or Organized Trading Facility (OTF).

5. Deal Making with Clients : Pre-Conditions

State Bank of India, UK Branch lays down the following pre-conditions to enter into deal with its clients :

- i. Client categorisation has been carried out in accordance with State Bank of India, UK Branch Client categorisation policy and the Client has been accorded the category, "Per se Professional Client"
- ii. The Per Se Professional Client must have accepted the Best Execution terms of State Bank of India, UK Branch in writing.
- iii. The client has given consent to deal outside MTF or OTF
- iv. The request for deal is for one of the four products viz., Interest Rate Swap or Forex SWAP or Forex Forward or Interest Rate CAP/Floor.
- v. There are sufficient credit limits/cash available to meet the margin requirements.

6. Execution Venues

SBI UK Branch shall be entering into all the deals with its Per se Professional Clients as a "Principal" which means in all the deals with Per se Professional Clients, SBI UK Branch will be one of two counterparties. It does not act as an agent of its Per se Professional Clients to execute the deals on either "On Venue" or "Off Venue". SBI UK Branch does not operate any MTF or OTF to conclude the deals with Per se Professional Clients, instead it will converse and conclude the deals on recordable mediums like Email/Recorded Telephone/Reuters Icon Chat/Bloomberg Chat Window. The clients are therefore required to sign their consent to deal outside a trading venue with SBI UK Branch. However, for the purpose of pricing reference to the quotes given to Per se Professional Clients, SBI UK Branch uses the following Execution Venues:

	Product	Venue	Method
A	Forex Forward	Reuters MTF, T-360 MTF	Request for Quote
B	Forex Swap	Reuters MTF, T-360 MTF	Request for Quote
C	Interest Rate Swap	Over the Counter Market	Best of 3 Random Quotes/Recent Deal Prices& Reconstructed Price
D	Interest Rate Caps and Floors	Over the Counter Market	Best of 3 Random Quotes/Recent Deal Prices & Reconstructed Price

The above MTF's are chosen based on the liquidity available on them and the past satisfactory experience of SBI UK Branch. The controls offered by these venues are in tune with the current best execution policy. These are renowned in the market and apart from price costs, they have speed and their likelihood of execution is also high for the chosen asset classes. The Venues will be reviewed after 12 months of MIFID regime from the experiences gained in that period. We do not execute any security financing transactions on these venues. Since SBI UK Branch shall not execute the trades as an Agent on the above mentioned execution venues, however, it shall endeavour to gather the publicly available data from them to ensure the fairness of the price.

7. Philosophy of ensuring Best Execution to the Clients.

7.i Factors considered for Best Execution : SBI UK Branch shall take into account the following *execution factors* to ensure Best Execution to the Per se Professional Clients viz.,

- i. Price
- ii. Costs
- iii. Speed
- iv. Likelihood of execution & settlement
- v. size,
- vi. nature or any other consideration relevant to the execution of an order.

State Bank of India, UK Branch will take into account the following criteria to determine the relative importance of the factors listed above:

- (a) the characteristics of the client including the categorisation of the client;
- (b) the characteristics of the client order;
- (c) the characteristics of financial instruments that are the subject of that order;
- (d) the characteristics of the execution venues viz., MTF or an OTF, a Systematic Internaliser or a market maker or other liquidity providers from whom a price reference can be obtained.
- (e) State Bank of India UK Branch does not extend any Security Financing Transactions.

Even if SBI UK Branch deals with its Per se Professional Clients on a “Principal” and “on own account”, it considers such dealing as execution of client orders and the “The Best Execution” standards shall continue to apply for such deals.

7.ii. Provision of quote and Deal Execution : If State Bank of India UK Branch provides a quote to a Per se Professional Client and that quote would meet the State Bank of India UK Branch’s obligations to take all reasonable steps to obtain the best possible result for its Per se Professional Clients if State Bank of India UK Branch executed that quote at the time the quote was provided, State Bank of India UK Branch will meet those same obligations if it executes its quote after the Per se Professional Clients accepts it, provided that, taking into account the changing market conditions and the time elapsed between the offer and acceptance of the quote, the quote is not manifestly out of date.

7.iii. Pricing of OTC Products : For Best Execution, as State Bank of India UK Branch will be dealing on own account, it will use the trading data/quotes from various execution venues for arriving at the price reference. However it may be difficult to identify and apply a uniform standard of and procedure for best price reference that would be valid and effective for all classes of instruments. Transactions involving a customized OTC financial instrument that involve a unique contractual relationship tailored to the circumstances of the Per se Professional Clients and State Bank of India UK Branch may not be comparable for best execution purposes with transactions involving Forex SWAPs and Interest Rate SWAPs traded on centralized execution.

7.iv Security Financing Transactions: State Bank of India, UK Branch shall not undertake any Security Financing Transactions with its Per se Professional Clients.

7. v Execution Venues and Commission : The price in the quote given by SBI UK Branch to its Per se Professional Clients shall be all inclusive one and will assume a notional and uniform commission for all the execution venues to which it has trading access. State Bank of India UK Branch also does not accept any dealing commission from any of the Execution Venues. SBI UK Branch or its employees does not accept any remuneration, discount or non-monetary benefit for routing the transactions. Choice of venues does not impact the pricing of the quotes extended by State Bank of India UK Branch. State Bank of India UK Branch shall not aggregate the client orders for arriving at the price reference and also for computing any charges.

7.vi Choice of execution venue by Clients : SBI UK Branch shall extend the quotes to its Per se Professional Clients by taking price references from the Execution Venues to which it has access. However, when the Per se Professional Clients insists for a price reference (either for full order or partial) for the quotes from a particular execution venue, to which SBI UK Branch has access, SBI UK Branch shall oblige the same (either full order or partial as the case may be). The information disclosed shall be used for execution of deals by SBI as a Principal with its Per se Professional Clients and not meant for the Clients to approach such alternate execution venue themselves. In the event of SBI UK Branch having prior knowledge about any hindrances in that particular execution which might prevent the best execution, the same will be conveyed as a warning to the client that specific instructions may prevent State Bank of India, UK Branch from providing the Best Execution.

7.vi. Demonstration of Best Execution on demand: State Bank of India UK Branch shall on demand demonstrate the Best Execution of the deals vis-à-vis with its Best Execution Policy to its Per se Professional Clients. Further SBI UK Branch shall also demonstrate to FCA at the request of that authority, its compliance with COBS 11.2A.2R which require firms to execute orders on terms most favourable to the client. Best Execution shall be based on all inclusive costs to the Client.

7. vii. Disclosure of Proprietary Position : State Bank of India UK Branch shall disclose to its Per se Professional Clients, any proprietary position it holds in the products for which quote request has been received.

7.viii. Limit Orders: SBI UK Branch shall not accept limit orders from its Per se Professional Clients, the dealing will be done only based on the Request for Quote from the Client.

7.ix Publicity or Promotion of MIFID Products: State Bank of India UK Branch shall not issue any Publicity or Promotion material for the MIFID Products viz., Forex Forwards, Forex SWAPs and Interest Rate SWAPs and Interest Rate CAPS/FLOORS

7.x Periodic Updates: State Bank of India, UK Branch on an quarterly intervals shall provide to its Professional Clients a statement of outstanding derivative deals along with their Mark-to-Market valuation. Any change in Terms and Conditions will be informed to the Per se Professional Clients a minimum of 15 days in advance before such change becomes effective.

7.xi. Compensation Policy: State Bank of India, UK Branch does not have any compensation policy for MIFID II regulated business.

8. Process of dealing with Professional clients

8.i. Deals at the discretion of State Bank of India, UK Branch: SBI UK Branch presumes that being Per se Professional Clients; they have access to various market information and also shop around for the quote. Therefore once the quote is accepted by them, it will be further presumed that their decision is an informed one. State Bank of India, UK Branch shall not initiate the deal making process. The deal will be initiated only at the request of the client and any deal will be done at the sole discretion of the bank. The factors which are considered while entertaining a deal request from the client:

- a) Available limit on the client
- b) Past Dealing Experience like adherence to the commitment etc.,
- c) Extant Risk Guidelines of the Bank.
- d) Any operational or regulatory restrictions in place at the time the request is made.
- e) Once the above factors are satisfied, depending upon the instrument involved, the steps enumerated in Para 8.ii to 8.iii shall be followed.



8.ii. Forex Forwards and Forex Swaps which are traded on MTFs

8.ii.a Provision of Quote : Unless the client instructs to choose a particular execution venue for pricing reference, the dealing room staff of SBI UK Branch shall obtain best quote for the size and tenor requested by the Per se Professional Clients from both Reuters MTF and T 360 MTF. The best quote obtained from the MTFs shall be cross checked with the past deal data of the deals of similar size and tenor took place in the very near past say same day or previous day. If the prices vary by a huge margin say more than 30 bps, in the event of absence of any major risk event, State Bank of India, UK Branch shall refrain from quoting to the customer. Price shall be first factor of consideration for arriving at the Best Execution however apart from price, costs, speed, likelihood of execution/settlement, size (in the stated order of preference) will also be examined. The quotes can also be compared to the best execution data published by execution venues in case they are available and relevant.

8.ii.b Execution of Deal : In case the quote is found to be in order, the best quote shall be taken as the price reference for the quote. SBI UK Branch will then add its mark up to the best quote obtained and an all-in-one price will be quoted to the Per se Professional Clients. The price quoted will be an "indicative one" subject to various terms and conditions mentioned therein. Upon satisfied with the terms and conditions and price, the client will re-approach the bank as a recorded telephone/ Reuters chat/Bloomberg window and request bank for a final quote. In the event the final quote is acceptable to the client, bank and client shall conclude the deal. Upon conclusion of the deal, bank will send a final confirmation which will be accepted and returned within 24 hours

8.iii. Interest Rate SWAPs, Forex Swaps, Interest Rate CAP/FLOOR which are not traed on MTF or OTF (Off Venue):

8.iii. a. Provision of quote :

Gathering of Market Data :

1. SBI UK Branch shall obtain 3 random quotes from 3 different counterparties at a maximum time lag of one hour between the first and the last quote.
2. If data pertaining to the recent deals(not older than one trading day) of similar size in the said product is available in public domain, State Bank of India, UK Branch shall source such information.

Reconstruction of Price from the gathered Input Variables :

3. Shall Check for the price of the input variables such as SWAP Prices, Exchange Rates and Forward Rates from information platforms like Bloomberg or Reuters. The price of the product shall be independently reworked using the input prices

The minimum of the price arrived at by following the steps 8.iii.a.1 & 2 will be cross checked with the reconstructed price as per 8.iii.a.3 If both the prices vary by more than 30 bps, in the event of absence of any major risk event, State Bank of India, UK Branch shall refrain from quoting to the customer. Price shall be first factor of consideration for arriving at the Best Execution however apart from price, costs, speed, likelihood of execution/settlement; size (in the stated order of preference) will also be examined. Otherwise, the best quote shall be taken as the price reference for the quote. SBI UK Branch will then add its mark up to the best quote obtained and an all-in-one price will be quoted to the Per se Professional Clients. The price quoted will be an "indicative one" subject to various terms and conditions mentioned therein.

8.iii.b Execution of Deal : Upon satisfied with the terms and conditions and price, the client will re-approach the bank as a recorded telephone/ Reuters chat/Bloomberg window and request bank for a final quote. In the event the final quote is acceptable to the client, bank and client shall conclude

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9. Correspondence regarding Policies

SBI UK Branch shall respond positively within 5 working days regarding any clarification sought by the clients regarding its policy.

10. Recording of Orders Received and Executed

State Bank of India UK Branch, in relation to every order received from a Per se Professional Client, immediately make a record of the following details, to the extent they are applicable to the order or decision to deal in question:

- (a) the name or other designation of the client;
- (b) the name or other designation of any relevant person acting on behalf of the client;
- (c) Buy/sell indicator
- (d) ISIN of the Security
- (e) Unit price
- (f) Price notation
- (g) Quantity
- (h) Quantity notation
- (i) the nature of the order if other than buy or sell;
- (j) the type of the order;
- (k) any other details, conditions and particular instructions from the client that specify how the order must be carried out;
- (l) The date and exact time of the receipt of the order, or of the decision to deal, by the investment firm.

11. Recording of Per se Professional Client Transactions

Immediately after executing a Per se Professional Client order, State Bank of India UK Branch shall electronically record the following details transaction in question in the Authorised Reporting Mechanism Portal for which it has subscribed to.

12. Review of the Policy : Best Deal Execution Policy shall be reviewed by The Risk Department of State Bank of India, UK Branch at least on an annual basis or upon any material changes in the execution venues or market trading rules. It shall communicate to its Per se Professional Clients of any changes on any modification.

