

CHARLES  
STANLEY▲

# Order Execution Quality Report - 2017

*Focusing on you*

# Markets in Financial Instruments Directive (MiFID) - RTS 28 reporting

The enhanced MiFID II regime came into effect on 3rd January 2018 and heralded new requirements for firms like Charles Stanley to provide information for clients. One of these is that firms executing client orders must summarise and make public on an annual basis their top five execution venues, in terms of trading volumes, for the preceding calendar year. This information is required for each class of financial instrument. In addition, firms have to provide information on the quality of the execution obtained over the same period.

Good client outcomes have always been a priority for Charles Stanley. Order execution is something we have always striven to do well and we go to great lengths to ensure we meet our obligations when executing client orders. We understand that clients rely on us to protect their interests in relation to pricing and other parameters of a transaction. We use a large network of traditional market counterparties and embrace new execution venues and methods of dealing where we believe these can improve our execution performance.

Our dealing team works in accordance with our Order Execution Policy and there is rigorous oversight of their activities. Comprehensive summaries of this policy are available from the Charles Stanley and Charles Stanley Direct websites. Some of the key elements and other explanatory notes are included in the report.

## A. COMBINED PERFORMANCE SUMMARY

The combined performance figures for all orders across Charles Stanley and Charles Stanley Direct for 2017 demonstrated:

- (i) 90% of orders were better than or equal to the benchmark price. This is split out as follows:
  - (a) 78.82% of orders bettered the benchmark price.
  - (b) 11.18% of orders equalled the benchmark price
- (ii) 8.95% of orders could not be benchmarked. This was mainly due to :
  - (a) trades occurring at a time when there was no continuous trading on a lit venue (i.e. before or after a market open or close);
  - (b) trades occurring at a time when continuous trading was suspended on the main market, or whilst that market was in auction mode, or there was insufficient volume on a lit venue to execute a trade fully;
  - (c) no lit venue had sufficient volume to fully execute the size of the trade.
- (iii) 1.05% of orders showed as worse than benchmark and required further investigation. Of these, the majority were result of:
  - (a) a better price on a venue that Charles Stanley does not access;
  - (b) trade time discrepancies (for example, in foreign stocks);
  - (c) non-standard settlement;
  - (d) misleading benchmarks or input error.
- (iv) During 2017 there were two occasions where it was deemed that clients had been disadvantaged, resulting in compensation. Total compensation amounted to less than £1,000.

## B. EXECUTION FACTORS

When executing client orders, we take into account the following execution factors:

- (i) **Price:** for most liquid instruments, market price will be the overriding factor in attaining best execution. Price is likely to be the main execution factor for Retail Client orders; however, this might not always be the case. For example, associated costs of dealing on a particular execution venue might mean that the total consideration is excessively impacted. In such circumstances, costs rather than price could be the overriding execution factor.
- (ii) **Costs:** where particular execution venues carry additional charges (such as exchange fees or settlement/custody costs) that would have an excessive adverse impact on the total consideration for a client order (for example, the cumulative cost of many small trades on an order book), then this could become the most important factor for us to consider. In some circumstances, for example where there are overseas brokerage commissions, other costs might be the most important factor. We may consider that the potential for a large Order to move the market, or the possibility that a request for an electronic quote might not be forthcoming, are grounds for considering lower cost as being of higher importance than other execution factors.

- (iii) **Speed:** similarly, the speed of execution could be important for some types of Order or client. Speed will be a high priority for a Retail Client executing an order in liquid (frequently traded) shares in a fast-moving market.
- (iv) **Likelihood of execution and settlement:** in some instances, our ability to execute the Order at all will be the primary factor to be considered. Where, for example, the Financial Instrument is illiquid (rarely traded) or the size of the Order is unusually large compared to normal trading volumes, our ability to actually execute the Order at all might take precedence over other execution factors. Application of the “total consideration” requirement (please see below for more information) may mean that this factor is given precedence over the immediate apparent price of a Financial Instrument where this will – in our opinion – deliver a better overall result for the client.
- (v) **Size and nature of the Order:** the best price in a market is usually represented by the opportunity to trade in a particular size (number of shares or units), which might not match the size of the client’s Order. Where the Order is bigger than the typical quoted size, then the part of the Order executed over and above the threshold, or the terms offered for the whole Order, could only be available at a less favourable price. There are various strategies for trading large Orders and we will exercise our discretion where there is no other instruction from the client. Large or illiquid orders may be executed on a manual basis using the negotiating skills of our Dealing team. In such cases, our dealers will source the best available terms by comparing the prices offered by a variety of execution venues (including other firms and Multilateral Trading Facilities, or MTFs). This may require us to execute Orders over the course of a day, or a number of days, with the overall Order execution being expressed as an average price of all the individual execution fills carried out on a particular day.
- (vi) **Any other consideration relevant to the execution of the Order:** we will take into account any other execution factor relevant to the Order that we believe warrants consideration in terms of how that Order should be executed. This could be simply whether it is a buy or sell Order, the imposition of price limits, non-standard settlement, whether it is part of a contingent Order, or whether the security is dealt in another market.

### C. RELATIONSHIPS WITH EXECUTION VENUES

When carrying out Orders on a Regulated Market, Multilateral Trading Facility, Organised Trading Facility - referred to collectively as Trading Venues - or Systematic Internaliser or (when appropriate) as a transmitter of orders, we select the Execution Venue that we consider the most appropriate. The Execution Venue might be the Trading Venue itself, or a member firm of the Trading Venue. For Retail Clients, decisions are made with the sole objective of producing the best client outcome in terms of total consideration.

Charles Stanley does not:

- have any close links, conflicts of interest or common ownership with any execution venues. Charles Stanley is a member or participant of the London Stock Exchange, Cboe European Equities, NEX Exchange and Bloomberg MTF.
- receive any payments or non-monetary benefits for directing trades to a specific venue. Discounts can be given by Trading Venues once certain volume or value thresholds are met. During 2017, all direct Regulated Markets costs were borne by Charles Stanley. Direct Market Access (DMA) costs for accessing foreign markets were passed to clients as an extra charge on contract notes.

### D. EXECUTION VENUES USED

To ensure the best possible coverage in the asset classes in which we transact our clients' business, Charles Stanley retains a comprehensive list of Execution Venues, which can be viewed on the Charles Stanley website alongside our Order Execution Policy Summary.

During 2017, there was little overall change to our Execution Venue list. However, we:

- (i) added an additional Direct Market Access (DMA) venue with particular strength in the UK mid-cap space, thus enhancing both strategy and trading venue reach;
- (ii) reviewed a significant existing Execution Venue as result of change of ownership, the result of which was its continued retention on our list;
- (iii) added further exchange traded product specialist venues, and;
- (iv) strengthened our contacts in the structured product sector in preparation for the enhanced MiFID II regime.

Both the financial strength and performance of our Execution Venues are monitored on an ongoing basis.

## E. CLIENT CATEGORISATION

It is the position at Charles Stanley that all our clients - both Retail and Professional - are legitimately relying on Charles Stanley to obtain the best outcome for their Orders, since our relationship is always on an agent/client basis. We do not deal as “principal” against our clients’ Orders, including for any riskless principal trades, which are also conducted on an agency basis for our clients. We therefore regard best execution as an obligation that extends to all our clients.

## F. EXECUTION CRITERIA

The execution criteria that we take into account are the characteristics of:

- (i) the Client;
- (ii) the Order;
- (iii) the Financial Instruments that are subject of that Order; and
- (iv) the Execution Venues to which that Order can be directed.

We have already covered the execution factors that we consider and their relative importance in section A. However, for Retail Clients, the best possible result is determined in terms of the total consideration, representing the price of the Financial Instrument together with the costs related to execution (including Charles Stanley’s charges). Speed, likelihood of execution and settlement, the size and nature of the Order, market impact and any other implicit transaction costs are given precedence over the immediate price and cost consideration only if they are instrumental in delivering the best possible result in terms of the total consideration to our clients.

## G. MEASURING BEST EXECUTION

Charles Stanley uses IFS LiquidMetrix to analyse execution performance. IFS LiquidMetrix is based in London and its expertise is in financial market data research and execution quality analysis. IFS developed the LiquidMetrix suite of services, which is focused on execution quality assessment and transaction cost analysis.

To monitor and measure execution performance, LiquidMetrix benchmarks all Charles Stanley client orders against the leading venues where there was an executable price at the time of trade. Larger transactions that might have been executed over a period of time are reviewed internally against other metrics, such as the volume weighted average price (VWAP), any strategy employed or any client specific instructions concerning the execution of an order.

LiquidMetrix provides a daily report highlighting any trade that appears to have fallen short of the best available price. This report is scrutinised by the dealing and compliance departments, with any perceived deficiencies investigated and remedied if necessary. Additional reports are drawn from market data suppliers or DMA systems as necessary to support the review process. Overall Best Execution performance is reviewed and discussed at a weekly meeting of senior Charles Stanley management. Our aim is to ensure that best execution is delivered to our clients on a consistent basis and in accordance with the nature of the order.

As at the date of this report, there is no ‘consolidated tape’ showing a comprehensive list of transactions across all venues. Consequently, as with other firms during the reporting period, Charles Stanley did not use the output of a consolidated tape provider.

## H. SUMMARY OF BEST EXECUTION ANALYSIS

As explained in the introduction to this report, MiFID requires Charles Stanley to publish tables on an annual basis, which detail the top five execution venues in terms of trading volumes for all executed client orders, split by class of financial instrument and by retail and professional client. We are also required to differentiate between orders executed using our own venue memberships and orders transmitted to a specialist counterparty for execution on our clients’ behalf.

The overall analysis of 2017 performance is consistent with our expectations, based on our ongoing monitoring throughout the year.

Charles Stanley is a predominantly retail investment management business that also has a significant digital execution-only presence via the Charles Stanley Direct service. These distinct business streams necessarily employ differing procedures when meeting their best execution responsibilities, whilst still adhering to the Charles Stanley Order Execution Policy. For this reason, the data tables for Charles Stanley and Charles Stanley Direct are published separately.

## I. COUNTERPARTIES

Charles Stanley and Charles Stanley Direct retain a broad list of venues, ensuring best possible coverage and access to sector specialists. LiquidMetrix produces comparison data that allows us to compare the execution quality of these venues and counterparties. Whilst there is inevitably some variation, depending on the nature of the business executed, compared to the overall rate at which we beat the benchmark (78.82%), our mainstream counterparties perform at a higher level, beating the benchmark on an average 84% of occasions. Venue performance is monitored and any perceived weakness investigated.

- (i) **Shares & Depositary Receipts:** The top five counterparties are what we would expect them to be for Charles Stanley and Charles Stanley Direct and are arguably the preeminent mainstream venues within Charles Stanley's market segment.
- (ii) **Exchange Traded Funds:** Charles Stanley uses a wide selection of specialist venues for the execution of exchange traded fund orders, connecting via retail service providers (RSPs) for smaller retail business, or utilising the Bloomberg MTF request for quote facility for larger transactions. The top five venues for retail, professional and Charles Stanley Direct flow mirror our expectations.
- (iii) **Debt instruments and Bonds:** For the execution of larger business, Charles Stanley traditionally interacts via the Bloomberg MTF or transmits to specialist venues when better outcomes can be achieved. Winterflood Securities is the leading venue with which we both execute and (when appropriate) transmit business for execution. Although the data tables for these types of instruments would normally show executed and transmitted business separately, for the reasons explained in Sections G and J of this report, for the 2017 tables, both executed and transmitted business have been combined. The list of venues as shown for both retail and professional client orders reflect our expectations, with a mixture of leading retail venues and institutional venues used.

## J. TRANSMITTED BUSINESS

As explained in paragraph K below, during 2017 firms were not required to collate data concerning venues for business that was transmitted rather than executed utilising their venue memberships. However, the prominent venues that Charles Stanley engaged with for this purpose were:

- (i) **Shares & Depositary Receipts UK:** Barclays DMA, Stifel DMA
- (ii) **Shares & Depositary Receipts Foreign:** Barclays, Virtu, Winterflood Securities, Yuanta
- (iii) **Debt instruments Bonds:** Bridport, Guy Butler, Winterflood Securities

## K. BEST ENDEAVOURS

This report covers the period 1 January to 31 December 2017 and includes the information prescribed by regulation, where it has been available during 2017.

Whilst all the mechanisms for capturing the full level of data granularity will be fully available for 2018 reports, as with other firms Charles Stanley was not previously required to capture all the information necessary for the MiFID II disclosure standard. Mindful of this, our regulator, the Financial Conduct Authority, has formally recognised that reports for 2017 should be produced on a best endeavours basis. To that end, the following data was either not captured, or the data is of insufficient quality to formally report on:

- (i) **Executed and Transmitted orders:** We should maintain separate records of orders transmitted for execution, rather than executed using our venue members. Such records were not required to be maintained throughout 2017 for all financial instrument classes and some of our data is therefore incomplete. However, the prominent venues used for transmission of orders are shown at Section J of this report.
- (ii) **Aggressive and Passive orders:** We should publish the percentage of orders entered on an order book that either took liquidity, known as 'aggressive', or provided liquidity, known as 'passive'. This data was not available for 2017.
- (iii) **Directed orders:** Regulations require that we provide the percentage of orders executed on a venue that were directed orders. A directed order means an order where a particular execution venue was specified by the client prior to the execution of the order. The exact data was not available for 2017, but would have accounted for a very small percentage of our overall business.

#### L. CONSOLIDATED TOP 5 VENUE STATISTICS

Within MiFID II, Regulatory Technical Standard 28 dictates that venue statistics must be produced and published using a prescribed template, in a machine-readable format. Whilst following these requirements (see the separately published tables) we realise that this prescribed format is not particularly user-friendly for our clients. Therefore, we have additionally published below an overview of the main market sectors so that our clients can more easily view the main venues to which Charles Stanley directs its client orders.

Market makers such as Winterflood and Virtu have the broadest market coverage and dominate the small and medium size equity space. Whilst this is reflected in the figures, they also demonstrate that our orders are directed to a wide range of market participants because our dealers search for the best price for each client order rather than direct orders to a favoured broker.

## Charles Stanley (excluding Charles Stanley Direct)

Security Type	Client Category	Execution or Transmission*	Venue 1	% Vol	% Orders	Venue 2	% Vol	% Orders	Venue 3	% Vol	% Orders	Venue 4	% Vol	% Orders	Venue 5	% Vol	% Orders
Shares & Depository Receipts	Retail	Execution	Winterflood	22.00	37.26	Virtu Financial	16.89	14.42	Peel Hunt	9.01	13.46	Investec	8.67	4.77	Barclays	8.14	0.24
Shares & Depository Receipts	Professional	Execution	Winterflood	21.38	33.07	Virtu Financial	11.69	13.06	Cantor	10.01	8.28	Investec	6.73	5.34	LSE	6.49	2.33
Exchange Traded Products	Retail	Execution	RBC	25.29	28.11	Flow Traders	24.55	23.01	Winterflood	17.42	21.91	Peel Hunt	6.94	7.07	Susquehanna	6.78	2.73
Exchange Traded Products	Professional	Execution	Commerzbank	23.07	1.63	RBC	18.07	33.81	Flow Traders	17.5	21.03	Susquehanna	12.45	9.14	Jane Street	8.8	0.61
Debt Instruments, Bonds	Retail	Execution	RBS	17.65	8.34	Winterflood	14.36	11.98	Barclays	10.42	6.63	JP Morgan	9.28	4.91	Winterflood Gilts	7.97	25.83
Debt Instruments, Bonds	Professional	Execution	RBS	26.46	14.71	Barclays	24.62	11.76	JP Morgan	24.3	20.1	Winterflood Gilts	6.81	10.29	Nomura	5.78	6.37

## Charles Stanley Direct

Security Type	Client Category	Execution or Transmission*	Venue 1	% Vol	% Orders	Venue 2	% Vol	% Orders	Venue 3	% Vol	% Orders	Venue 4	% Vol	% Orders	Venue 5	% Vol	% Orders
Shares & Depository Receipts	Retail	Execution	Winterflood	29.60	38.23	Virtu Financial	21.36	15.48	Peel Hunt	16.73	17.99	Investec	7.87	5.22	Shore Capital	5.40	8.37
Exchange Traded Products	Retail	Execution	RBC	43.17	46.94	Winterflood	24.88	29.42	Peel Hunt	18.16	10.87	Virtu Financial	10.42	9.22	Flow Traders	1.92	1.77
Debt Instruments, Bonds	Retail	Execution	RBS	24.10	0.97	Winterflood Gilts	23.84	35.92	Peel Hunt	14.79	15.53	Winterflood	9.80	9.71	Canaccord	8.28	24.27



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