Best Execution - Retail

Version 1
August 2022

Applies to:
StoneX Financial Limited

Contents

Contents 2
1. Introduction 3
2. The execution factors 4
3. Treatment of client specific instruction 4
4. Price Slippage 6
5. Monitoring of execution quality 6
6. Transaction cost analysis 6
7. Best Execution Subcommittee 6
Appendix and Links 7

1. Introduction

StoneX Financial Ltd. ("SFL" or "the Firm") is required to establish and implement effective arrangements for complying with the overarching obligation to take all sufficient steps to obtain, when executing orders or placing orders with other entities to execute, the best possible results for its clients, taking into account the execution factors, on an on-going basis (hereinafter referred to as the "best execution obligation").

This Policy ("the Policy") has been designed to satisfy the requirements set down in the Financial Conduct Authority's ("FCA") Handbook of Rules and Guidance, which require that, amongst other things SFL establishes and implements an order execution policy to allow it to meet the best execution obligation, including information on:

- how orders will be executed;
- relative importance of the execution factors and how this is determined;
- application of the Policy;
- monitoring and update of the Policy; and
- how SFL compares and analyses all relevant data in its assessment of its order execution arrangements.

The best execution obligation is a core component in the regulation of financial services and aims to deliver three main objectives:

- ensure protection for investors;
- sustain integrity in the price formation process, especially in the over-the-counter ("OTC") markets; and
- promote competition among TVs.

SFL structures its order execution arrangements to allow customer-facing employees to exercise their professional judgement in the best interests of clients, especially as the rules governing order execution are neither prescriptive nor open-ended, and the differing needs and requirements of clients. All employees involved, directly or indirectly, in the execution of orders on behalf of clients are expected to comply with the provisions of the Policy. The Policy applies only in respect of the execution of orders on behalf of clients by SFL in exchange-traded and OTC financial instruments across all asset classes.

The best execution obligation applies to the execution of orders (without prejudice to type) on behalf of 'Retail' and 'Professional' (Per Se and Elective) clients across the following asset classes:

- CO: Commodity and emission allowances;
- CR: Credit;
- CY: Cryptocurrencies
- FX: Foreign Exchange;
- EQ: Equities;
- IR: Interest Rates;

- OTC: Over-the-counter; and
- SB/CFD: Spreadbets and Contracts for Difference.

In respect of a 'Professional' client, SFL conducts the four-fold cumulative test to determine whether a client places legitimate reliance on the firm to protect their interests in relation to pricing and other important elements of the transaction. Following consideration of all relevant factors, if SFL concludes that the client is not legitimately relying on SFL, then Best Execution will not apply.

In respect of retail clients, it is assumed that a client places legitimate reliance on SFL to act in its best interests when executing its orders. This best possible result for retail clients is measured in terms of 'total consideration'. 'Total consideration' takes into account all of the execution factors (i.e. Price formation, costs paid by customers, speed of execution, likelihood of execution and settlement, transaction size, and nature of the trade order). For the retail client business the costs are composed of any applicable transaction costs (spread), finance costs, third party costs and any guaranteed stop loss order premiums.

In the following circumstance the provisions of the Policy will not apply:

(i) execution of orders on behalf of a client classified as an 'Eligible Counterparty' (Per Se or Elective)

2. The execution factors

The execution factors that must be considered by SFL are price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.

2.1 Fairness of pricing for OTC products

SFL marks the execution price of each order against the underlying price available (from below). SFL continually monitors any outliers where there is a significant difference (greater than 0.2%) between the SFL price and the external reference.

References:

- a futures exchange in the case of indices or commodities. SFL tracks the underlying index cash price for indices. SFL monitoring includes a basis from the major futures exchange price to the recognised cash price to ensure SFL's reference is accurate and valid;
- underlying equity trading venues for equity offerings;
- GTX for FX offerings, which is an aggregated mix of many anonymous FX liquidity providers; and
- cryptocurrencies are compared using the price of the benchmark product prevailing on the exchange.

3. Treatment of client specific instruction

SFL will execute orders in accordance with the specific instruction(s) provided by a client, irrespective of the execution factors or other relevant consideration. By following a client's specific instruction(s), SFL will have met the best execution obligation. Should a client's specific instruction only apply to part of an order, the remaining parts of the order will be subject to the provisions of the Policy.

Each trading desk remains accountable for the execution of a client order following specific instructions and should not induce a client to execute an order in a certain way, by expressly indicating or implicitly suggesting the content of the instruction to the client.

3.1 In house execution of client orders

SFL deals with its customers on a principal basis and not as agent. CFDs are bilateral contracts and SFL is therefore the customer's counterparty and the only 'execution venue'. In dealing with SFL, the customer transacts directly with SFL and not on any exchange or other external market or venue. Any trades with SFL are non-transferrable. If the customer creates an open position with SFL, they must close it with SFL. The best execution requirements still apply.

3.2 Use of a single execution venue

SFL, in a given class of financial instruments, may choose to execute client orders on a single execution venue only where it can demonstrate that such a choice enables it to meet the best execution obligation. To justify its use of a single execution venue, SFL regularly assesses the market landscape, using a combination of the skills, expertise, and experience of its staff together with relevant metrics (focusing on volume, frequency of trading, resilience and/or execution price related information), to determine if there are alternative execution venues. SFL's reliance on a single execution venue does not absolve it from the best execution obligation because one or more of the following conditions may result in materially different outcomes:

- different order types (e.g. limit orders, 'good till cancelled' ("GTC"), 'stop-loss' orders (especially in consideration of the defined terms, such as the reference price, order amount, time period and trigger);
- the calibration settings of an algorithm (order execution and/or investment decision) or Smart Order Router; and/or
- the multiple ways the execution of a single order can be affected (e.g. 'blocking' versus splitting into multiple 'child' orders).

3.3 Grey Markets

When SFL quotes market prices outside of normal market hours (or when they are closed) SFL will often widen prices or source the underlying price from a different exchange or provider. This will often mean that the price is wider than it is during normal market hours. When SFL offers grey markets, SFL will adjust the price in accordance with where SFL thinks the price is relative to either our client activity, underlying volatility or market events and unless there is significant market volatility, the spreads offered will be fixed During these times the obligation to provide best execution can only be diminished as there is no exact underlying price.

4. Price Slippage

SFL adheres to best practice with regards to price slippage for the retail forex business and in other asset classes. Client market orders placed on SFL's execution platforms are set to a default setting for slippage tolerance (they can be adjusted by the client if required). Any price movement that moves against the client within their defined tolerance, will result in slippage. Where a price movement occurs outside of a client's tolerance, it will result in a rejection, whereas a price movement in favour of the client may be unlimited. Given this unlimited nature, SFL expects that the net results across multiple orders should demonstrate asymmetric improvements. For stops and limits, the expectation is that stops could be filled at a better price, but no limit will be filled at a worse price. On occasions, particularly around market opens and other such events, SFL would expect to see significant differences between the pending order level and the executed level. For the purposes of assurance, the outliers are reviewed daily.

When SFL executes orders in the underlying market for a client, SFL will pass on the average price of the full volume of the hedge along with acceptable execution spread and will pass on any price improvement achieved.

5. Monitoring of execution quality

SFL performs daily analysis of multiple metrics relating to execution quality. A trader is assigned this task each week to ensure it is given due care and attention. The metrics fall into the following categories:

- distribution of market order fills
- rejection rates per asset class and client
- order logic validation
- slippage monitoring of electronic execution
- slippage monitoring of dealer executed orders

6. Transaction cost analysis

SFL acts as principal for client's trades and orders and as such SFL is the execution venue not the underlying market where the product is referenced to. SFL has monitoring in place to ensure client trades are relevant to the underlying market. These checks and monitoring are important to ensure SFL are offering best execution and not abusing the single execution process, these include other associated costs which are to be monitored to ensure they have been applied correctly.

7. Best Execution Sub-Committee

Results of SFL's best execution monitoring, which is performed daily by front office staff and subject to review by the Compliance department, are presented to SFL's senior management at the Best Execution Sub-Committee ("BES"). SFL validate each trade against an independent market rate which factors in market conditions and asset characteristics during its price formation to ensure the executed price was market relevant.

The BES has overall responsibility to ensure that SFL clients have received Best Execution. The role of the BES is:

- to ensure that SFL seeks to always achieve best execution for clients;
- where possible, or appropriate, to further enhance and refine our pricing logic and methodology to improve execution for clients;
- assess whether SFL is meeting its obligations to its clients as set out in our T&Cs with respect to the provision of best execution and order execution
- to ensure strong level of oversight and where necessary, challenge to the Front Office control function.

Appendix and Links

Production Date	August 2022
Version no.	1
Replaces	(Supplement of the main SFL policy)
Author	Maggi Fitt
Approver	Compliance Committee
For questions contact	SFLCentralSurveillance@Stonex.com