
2019 RTS 28 Report –
Top Five Execution Venues

18 May 2020

Winterflood Securities Limited (WINS) is a liquidity provider offering execution services to retail brokers, wealth managers and institutional clients. We are committed to making two-way prices even in extreme adverse market conditions. It is our belief that technology led innovation is a solid path to the development of our company. At WINS we pride ourselves on being client-centric and aim to provide our customers with a flexible, high quality service throughout the entire execution cycle from pre-trade right through to settlement.

www.winterflood.com

Order Execution Policy:

<http://www.winterflood.com/documentation>

Winterflood Business Services (WBS) was founded as a separate division of Winterflood Securities Limited in January 2010, in response to demand from both WINS' existing and potential clients. Having the backing and balance sheet of a robust organisation such as Winterflood Securities Limited gives WBS strength and scalability while remaining totally independent behind a Chinese wall in our operational business. WBS' key strength stems from a highly skilled and experienced team - our team of 58 people have detailed knowledge and high levels of experience across the industry.

www.winterfloodbusinessservices.com

Order Execution Policy:

<http://www.winterfloodbusinessservices.com/documentation>

Our registered office is The Atrium Building, Cannon Bridge House, 25 Dowgate Hill, London EC4R 2GA. WINS is a subsidiary of Close Brothers Group plc. We are a financial services firm and are authorised and regulated by the Financial Conduct Authority ("FCA") for the conduct of investment business in the United Kingdom, with firm reference number 141455.

I. INTRODUCTION

What is RTS 28?

Directive 2014/65/EU in financial instruments (MiFID II) requires investment firms who execute Client orders to summarise and make public on an annual basis, for each class of financial instruments the top five execution venues in terms of trading volumes where they executed Client orders in the preceding year and information on the quality of execution obtained.

http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-28_en.pdf

What is Article 65?

Investment firms, when providing the service of reception and transmission of orders, shall comply with the obligation under Article 24(1) of Directive 2014/65/EU to act in accordance with the best interests of their Clients when transmitting Client orders to other entities for execution.

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0565&from=EN> (Page 58)

What is our approach?

In line with these regulations Winterflood will publish data annually in a machine-readable format and make available on our website. The raw data illustrates our top five execution venues across a range of in scope asset classes and Client categories. The data incorporates both WINS and WBS combined. Additionally, for each calendar year, we will publish a more user-friendly summary of our data and our findings.

All information is available here: www.winterflood.com/documentation

What is Best Execution?

Under MiFID II, WINS are required to take all sufficient steps to obtain the best possible result for Clients on a consistent basis when executing Orders, “Best Execution”. These MiFID II requirements are implemented in the UK in the Conduct of Business Sourcebook (“COBS”) contained in the Handbook of the Financial Conduct Authority (the “FCA”).

What is our approach?

We have an obligation to constantly review the effectiveness of our execution arrangements. To ensure we are able to undertake a comprehensive review of our execution arrangements, we have established a Best Execution Committee (BEC). The BEC was formed to review and challenge our execution quality, scrutinise the policies we have in place, and make any recommendations to improve our order handling procedures.

We review our performance daily, using automated reports supplied by an independent third party which helps us to monitor and assess our execution quality. The BEC meets monthly, and we undertake a full review of our Order Execution Policy at least annually. This will include, but is not limited to, our benchmarking, our tolerances, our Broker selection and our list of accessible Execution Venues.

Exceptions are investigated by the BEC, and any systematic recommendations may subsequently be made which will then be incorporated into a revised and enhanced OEP. Furthermore, Compliance will also monitor our adherence to this OEP by undertaking ad hoc and independent sampling. We take our Best Execution obligations very seriously, and hence there is not only board representation on the BEC, but also representation from business heads of all the different trading sectors, as well as senior representation from Compliance and Front Office Controls Manager.

II. OVERVIEW

As a registered Market Maker and Liquidity Provider, WINS execute a significant proportion of our Client business on our own book. WINS do not trade in a proprietary capacity but facilitate Client business by acting in a principal or riskless principal capacity.

A large percentage of our overall trading volumes come from retail broker intermediaries, that are typically fellow exchange members, and hence are not Clients for the purposes of on exchange transactions and are classified as Eligible Counterparties for any other business. In both these scenarios, the rules relating to Best Execution are not applicable, and therefore this business is out of scope for the purposes of this regulatory report.

We also execute a significant proportion of our turnover with institutional Clients that we would classify as Professional Customers. This Client base is placing a 'legitimate reliance' on WINS to execute their business, and hence we have a Best Execution obligation towards them. The data collected from this Client category forms the basis of these regulatory reports. WINS do not deal directly with Retail Clients.

WBS provide outsourced dealing, custody and settlement services, acting as Broker/Agent for a wide range of Clients including both Professional Customers and Retail Clients. Both Client categories are placing 'legitimate reliance' on WBS, and WBS will have contractual obligations towards those Clients.

As both WINS and WBS are a single legal entity, we have an obligation to report the combined data of both businesses, which means that for Professional Client business the numbers will be commingled.

Each table illustrates our top five venues for a unique combination of Asset Class, Client Category (P=Professional, R=Retail) and trading workflow. The different trading workflows identified by either RTS28 or Article65 (as shown above in section I) are either:

'EXECUTION' – When directly facing (and hence being a direct member of) an Execution Venue e.g. LSE

'TRANSMISSION' – When indirectly accessing an Execution Venue via a third-party Broker/Agent

A list of our current Execution Venues and Third-Party Brokers can be found within our Order Execution Policy(s).

III. DATA CLASSIFICATION

As mentioned previously, there are two different Client categories to whom we owe Best Execution, and hence whose business will be contained within this regulatory report, namely Professional Customers and Retail Clients. **Therefore, as mentioned above, a significant amount of our overall business, which we conduct with Eligible Counterparties / LSE Member Firms, will not form part of this report.**

The report is broken down into the different Asset Classes as outlined in the regulations. There are 22 different Asset Classes in total, but many of them (derivatives, contracts-for-difference, and emission allowances) are not traded by Winterflood. Our report covers Equities, Debt Instruments (Bonds and Money Market Instruments), Exchange Traded Products (which includes Exchange Traded Funds, Notes and Commodities) and Other Instruments.

We have classified each instrument based on its CFI code (Classification of Financial Instrument) which is then mapped into the appropriate Asset Class. Where there is no mapping available, or no CFI code, we have included the data within 'Other Instruments'. This may include funds and foreign securities for example.

The data is also broken down into tick size tables to illustrate any differences in top 5 Execution Venues when executing orders in illiquid smaller companies compared to highly liquid larger capitalised companies for example. The tick size tables range from 1&2 (least liquid/active), through 3&4 to 5&6 (most liquid/active).

Equity tick size tables, which were previously made available for download from ESMA, are no longer maintained. Therefore, the liquidity tick bands have been classified based on the average daily number of trades (ADNT). ADNT statistics have been taken from ESMA. Liquidity tick size bands are then classified stock by stock on the basis of what band their ADNT value falls into.

What is an order?

For the purposes of the core WINS business, where we are typically acting in a principal capacity, we count every single inbound order submitted to us from our Professional Customers, be it electronic or phone based. For the sake of clarity, this will not necessarily reconcile with our trade report or transaction report submissions, or client contract notes, as an order can be executed in multiple underlying fills or child orders in the market and/or split into segregated accounts for post-trade settlement.

WBS offer outsourced dealing and custody, hence they may also retain details of the underlying participants making up a single order being placed in the market. Where this is the case, instead of adding up the aggregate orders placed in the market, or with fund managers for example, we will capture the number of underlying child orders which in aggregate constitute a single market side order.

This means that the number of WBS orders are proportionately very high compared to the number of aggregated orders actually placed in the market, but the turnover numbers, and associated percentages, will not be impacted. This is particularly the case when placing fund orders, hence a number of Fund Managers may appear as a venue with a large percentage of volume and yet not appear as a top five venue by value.

IV. DATA EXCLUSIONS

The MiFID II regulations came into force on January 3rd 2018. The reporting period for this 2020 RTS 28 report is for the calendar year of 2019.

Passive and Aggressive ratios are only relevant where Client orders are submitted to an Execution Venue's Central Limit Order Book (CLOB). Whilst we can route Client orders to the CLOB, the vast majority of orders are executed against our own book. Therefore, the passive and aggressive data points are only relevant for the limited number of Client orders routed to the CLOB where the data has been provided by the venue and been recorded.

V. SUMMARY OF OBSERVATIONS

As a traditional Market Maker, we are committed to providing our Clients with execution quality through our consistent liquidity provision and competitive pricing. Winterflood are registered as a Market Maker on the London Stock Exchange (LSE) in over 3,000 UK Equities, Exchange Traded Products and Fixed Income Instruments. We do not trade in a proprietary capacity but facilitate Client business by trading on our own book. Our Client base is predominantly UK institutions who are typically investing in UK instruments, hence a significant amount of our business is trade reported to the LSE, our most dominant Execution Venue (82.01% by value, 38.94% by volume, when combining all LSE market codes).

The next most significant Execution Venue by value traded is Winterflood Securities Limited at 5.16%. This is broadly in line with the previous year (6.42%) and consists mainly of principal trades in non-MiFID Securities, some Exchange Traded Products and Fixed Income Instruments. Where required by the regulation these are increasingly reported to an Exchange, so we can expect to see this proportion of trading to continue to fall.

The third largest venue in this report is Bloomberg MTF, or 'BMTF' which was launched in 2017 and was created out of the 'Request-For-Quote' (RFQ) function for trading Exchange Traded Products on Bloomberg. BMTF is used to access multiple liquidity providers or market makers, in order to execute larger than average orders in Exchange Traded Products and Fixed Income Instruments. This venue represented 1.62% of our value traded in the 2018 report and increased to 2.69% in this report of 2019.

Another observation regarding our Execution Venues, is the notable increase in % turnover apportioned to Commerzbank. This is predominately because WBS have placed an increasing reliance on them for electronic execution in Exchange Traded Products. Commerzbank act as a Systematic Internaliser and were added to the WBS exchange traded routing platform in 2019 to enhance pricing and liquidity in Exchange Traded Products following an internal review of our Order Execution Policy.

Given the top Execution Venues mentioned above, it is of no surprise that the most significant asset classes in our report are Equities and Exchange Traded Products. In 2018 they represented 86.83% of value (55.89% of volume) and in this 2019 report the represent 84.18% of value (44.38% of volume). Whilst the % value remains consistent, the volume numbers have been impacted by an increase in the number of fund orders recorded in this report.

We have included Fund Orders in our data set, but because they have no CIF mapping code, their data is included in 'Other Instruments' which has seen an increase in volume % from 43.80% in 2018 to 55.24% in 2019. WINS do not place Fund Orders, so this business is all conducted by WBS who do place Fund Orders on behalf of their Clients. As there is no 'Execution Venue' or Broker, we have used the Fund Manager and associated LEI number.

In terms of 'Transmission' of orders (around 1% overall), typically in markets where we do not have direct access, we use an extensive network of Banks and Brokers as our Agent to facilitate execution. For WINS, we place most reliance on UBS AG, Barclays Capital, Credit Suisse and JP Morgan. Additionally, for WBS, we used both Valbury Capital and Phillip Securities in the reporting period, specifically for markets in Asia Pacific.

A summary of the raw data can be seen below.

VI. SUMMARY OF DATA

Summary of Top 10 Execution Venue (aggregated where Top 5 across multiple reports)

Venue	Sum of % of Total Value	Sum of % of Total Trade Count
London Stock Exchange XLON	64.14%	34.05%
London Stock Exchange - MTF XLOM	13.13%	3.95%
Winterflood Securities Limited 8BRUP6V1DX3PIG2R0745	5.16%	0.93%
London Stock Exchange - AIM MTF AIMX	4.74%	0.95%
Bloomberg Trading Facility Limited BMTF	2.69%	1.03%
NEX Exchange Trading (Equity) NEXT	1.29%	0.37%
Commerzbank Equity - Systematic Internaliser CBKE	1.19%	2.51%
NEX Exchange Trading (Non-Equity) NEXN	1.12%	0.27%
FIL Pensions Management 213800SWMABMN8UKVY18	0.65%	3.19%
UBS Limited BFM8T61CT2L1QCEMIK50	0.52%	0.45%

Summary by Asset Class

Asset Class	Sum of % of Total Value	Sum of % of Total Trade Count
EQUITY	65.05%	30.30%
EXCHANGE TRADED PRODUCTS	19.13%	14.08%
BONDS	9.97%	0.37%
OTHER	5.80%	55.24%
MONEY MARKET INSTRUMENTS	0.06%	0.00%

Summary by Workflow (Direct Venue Execution, or Indirect Transmission to Agent)

Row Labels	Sum of % of Total Value	Sum of % of Total Trade Count
EXECUTION	98.99%	99.33%
TRANSMISSION	1.01%	0.67%

Summary by Client Categorisation (Retail is with WBS Only, Professional is comingled)

Row Labels	Sum of % of Total Value	Sum of % of Total Trade Count
Professional	97.43%	95.78%
Retail	2.57%	4.22%

NB the report reflects trading with Professional and Retail clients only. Trading with Eligible Counterparties, which forms a large percentage of our overall trading is not included within the dataset.

VII. RELATIVE IMPORTANCE

In line with our Order Execution Policies, we place significant importance on price when executing Client orders. The relative importance of other criteria is illustrated with examples in our Order Execution Policy(s) but will vary depending on the liquidity profile of each instrument, relative to the Client Order, hence market impact can be of equal importance.

When we assess the quality of our execution performance, we use the services of Liquid Metrix to independently validate our trade executions, across both WINS and WBS. Liquid Metrix will automatically benchmark each execution against the best reference price available in the market at that time.

We monitor daily reports and review the results monthly within our Best Execution Committee(s) as documented within our Order Execution Policy(s). Where best price has not been achieved we will look at the other factors which may have influenced our execution, such as speed or likelihood of execution [many Clients expect a single fill, rather than multiple fills], settlement [some Clients want non-standard settlement] and often liquidity or market impact [larger orders in illiquid securities will often have no visible benchmark price].

VIII. EXECUTION VENUES

Under MiFID II, 'Execution Venue' means a Regulated Market, Multilateral Trading Facility (MTF), Organised Trading Facility (OTF, for Fixed Income), a Systematic Internaliser, Market Maker or other Liquidity Provider.

Whilst WINS are indeed a Market Maker, we are carrying out our business on a Trading Venue (Regulated Market or MTF), mainly the London Stock Exchange (amongst other venues). Our Client transactions are effected Off-Book, but On-Exchange and hence are executed in a multilateral environment and are identical to any other trades executed on a Central Limit Order Book (CLOB).

For this reason, a high proportion of our trading will be shown as executed on the London Stock Exchange, despite WINS having acted as Market Maker, and having dealt on our own book.

Exchange Traded Products are the second most active asset class in this report. Many of the larger orders in ETP, for both WINS and WBS, are executed via the Bloomberg MTF Request-For-Quote mechanism, hence whilst we might access multiple Market Makers and Liquidity Providers, the trades will still be effected on 'BMTF', which is shown as the execution venue.

IX. CONFLICTS OF INTEREST

We have a minor interest in Equiduct but, as illustrated in our data, we do not place more significant importance on this venue over any other venues. It is predominantly a venue for retail executions, with orders placed by Broker intermediaries who are classified as Eligible Counterparties and hence out of scope for this report. Those orders are routed to Equiduct by the Brokers themselves, and not by us. We act as liquidity provider, and matched executions are sent to us by Equiduct.

X. SPECIFIC ARRANGEMENTS

We have no special arrangements with any execution venues. Where we are direct members of certain execution venues, we may be registered Market Maker, or Liquidity Provider. In fulfilling our obligations therefore, our business may attract certain discounts as per publicly published fee schedules for each execution venue. Equally, like any market participants, we may receive ‘maker-taker’ rebates when residing passive liquidity on certain execution venues.

XI. CLIENT CATEGORISATION

The category of a Client, whether Professional or Retail, should have no bearing on how we execute a Client order, unless the Client requests that we follow any specific instructions – which could be for WINS to execute in a single fill for example, or for WBS to aggregate all equivalent Client orders to a single instruction per day.

All other factors being equal, both WINS and WBS will follow their respective Order Execution Policies, regardless of Client categorisation, when receiving a Client order. A small order in a liquid stock will be executed in the same way, whether from a Professional Customer or Retail Client. The same would also hold true of a larger order in a less liquid instrument.