

## **Cowen International Limited, Prime Business: Trading venues and qualitative report for execution obtained for 2018**

Cowen International Limited's Prime Business ("CIL") is subject to the EU's Markets in Financial Instruments Directive 2015/65/EU ("MiFID II") and related Commission Delegated Regulation. Under these requirements CIL is required to publish its execution venues and a summary of the analysis and conclusions it draws from its monitoring of the quality of execution obtained on the execution venues and through the brokers used.

The Prime Business was established during 2017 and has continued to grow since, with 2018 seeing a considerable increase in volumes. In parallel with this growth of the business CIL has built upon and strengthened its best execution framework in accordance with the applicable regulation. These include, adapting its best execution process to regulatory and market microstructure changes as well as adding new trading venues and adapting routing structures.

CIL introduced a more robust third-party analytical system which provides the data for the best execution monitoring framework, resulting in more detailed and quantitative assessments being made with deeper reviews of execution data. The provision of both Transaction Cost Analysis ("TCA") and best execution monitoring tools, using information sourced from our third-party brokers' FIX data, enables a comprehensive analysis of Best Execution exceptions.

The data set used for CIL's activity for the entirety of 2018 rather than a snapshot. This is used to capture a period characterised with a significant growth in volumes.

The proportion of volume analysis is based on the market value in USD as the FCA has informally indicated that the volume of Client orders will be the market value of the transaction.

The proportion of orders analysis is based on the number of orders sent to the venue as the FCA has informally indicated that the number of orders will be the number of Client orders, rather than the number of shares or units, or number of suborders into which a Client order is divided.

In accordance with our Order Execution Policy and MiFID2 Directive Article 27(1), the definition of best execution is the obligation on firms to *"take all sufficient steps to obtain the best possible result for their Clients, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to execution"*. This report details the processes, systems and procedures employed by CIL to implement, monitor and evaluate our Order Execution Policy, the relative importance given to the execution factors

CIL monitors on a regular basis the effectiveness and application of this Policy. Subject to relevant execution factors, CIL monitoring process focuses on the overall order execution outcome that have been achieved for the Clients and whether CIL is consistently providing Clients with the best possible result.

As part of our best execution framework, CIL regularly assess the market landscape and microstructure changes to determine whether there are alternative venues that could be used.

Under RTS 28, we are required to provide an explanation of how we have used any data or tools relating to the quality of execution, including any data published under RTS 27. However, as not being a direct member of any venue, we have used other data and tools relevant to data published by markets to satisfy these requirements.

Orders executed algorithmically were subject to monitoring by the trading team which has full visibility of algorithmic orders, on both a real-time and historical basis. As applicable, order executions which fall outside Client or CIL tolerances were rejected and investigated by CIL's trading staff. Orders that deviated from prescribed limits were rejected before sent for execution. Similarly, orders with discretion were subject to similar scrutiny in applying our duty of best execution.

CIL trading desk monitored execution quality obtained by execution entities, on execution venues, on an intra-day basis or a T+1 basis. Based on order handling reports, this monitoring included reviewing child execution slippage from applicable benchmarks, and other reference points. As applicable, order executions which fell outside designated tolerances were investigated and escalated by CIL's trading desk.

For governance and oversight of best execution, CIL has a Best Execution Committee. This Committee is responsible for the oversight of CIL's overall business activities as it relates to fulfilling its best-execution duty, and to evaluate regularly and rigorously the quality of executions by CIL.

The Best Execution Committee is also responsible for the oversight and selection of suitable third-party executing brokers to be added to CIL's broker list

The Best Execution Committee is represented by designated senior personnel from CIL and its Affiliates. Inter alia, the Best Execution Committee reviews best execution issues escalated by trading desk personnel and the Compliance function.

The Best Execution Committee reviews order execution quality obtained by execution entities (i.e. third-party executing brokers) through their participation in different venues, trend analysis of execution entities, trend analysis of execution venues and trend analysis of execution algos. The Best Execution Committee also assists in reviewing best execution policies and reviewing best execution measures carried out third party brokers.

### **Equity / ETF**

CIL provides execution capabilities across over 100 exchanges via our third party brokerage network. Trading can be done through either a High Touch solution via the trading desk or through a Low Touch solution enabling Clients to route orders electronically.

CIL routes its orders to third-party brokers, all of whom are authorised and regulated by the Financial Conduct Authority in the United Kingdom. Through these relationships, CIL accesses trading venues worldwide and leverages of trading technology and a broad range of solutions to access diverse sources of liquidity in order to deliver consistent, performance-driven results.

In selecting these brokers, CIL considered various third-party executing brokers with access to execution venues that could consistently achieve best execution for CIL and its Clients. In determining their use of these brokers, CIL concluded that routing orders via these third parties would enable it to obtain results for its Clients that are at least as good as the results it could reasonably expect to obtain if CIL was a member of execution venues in its own right.

CIL is of the view that being a direct member of execution venues would not increase execution quality or keep down commissions and other related costs.

As the business expands, we regularly review our options, and the use of our current range of venues, to ensure that our execution and market coverage meet our regulatory and business requirements.

CIL owes a duty of best execution for equity orders on behalf of Clients. Best execution applies where CIL accepts an order to buy or sell an equity from a Client and acts as an agent on behalf of the Client in the execution of that order.

CIL does not have any close links, conflicts or common ownership with any of our brokers or any of the venues used by them to execute orders. Similarly, CIL does not have any specific arrangements with any broker or any execution venues with regard to payments made or received, discounts, rebates or non-monetary benefits.

Electronic trading, through algorithmic solutions provided by our brokers, enabled CIL to provide high quality execution to satisfy performance benchmark, liquidity-seeking and opportunistic Client order types.

The overriding aim of each child order that an algorithm generates was to obtain best execution, given the size of the child order, the liquidity available and the prevailing market condition.

The algorithms provided by our brokers were able to adopt and react to changing market conditions, including volume, trade size and touch sizes for computing child order size. We are satisfied that the algorithms made available to us and our Clients supported our aim to achieve best execution on a consistent basis.

CIL used a third-party vendor product for its best-execution surveillance/monitoring and TCA which enables CIL to review executions outside set benchmark parameters. This has proved an effective method, with the solution allowing for detailed order book replays, utilising market data from individual executions venues enabling a high degree of granularity. The exceptions generated are in line with expectations, whereby those exceptions may have achieved marginally better results, however the factor prioritisation changes to that of liquidity and completion rather than price. We note in particular, those exceptions of illiquid, small cap or market maker stocks, who's trading pattern naturally sits outside a volume weighted benchmark environment. It is noted that CIL has no outstanding best execution reviews with our third-party brokers for not obtaining results consistent with our execution benchmarks and policy.

Outside of any specific instructions provided by the Client, the most important execution factor when handling orders was price. Overall, we are satisfied that we achieved best execution on behalf of our Clients where price was the most relevant execution factor.

There were, however, scenarios where the priority of execution factors varied. For example, when Client orders were seeking liquidity, the likelihood of execution was the prioritised execution factor.

Similarly, the size of an order in relation to the liquidity or volume of the security in question prevented speed from taking precedence over likelihood of execution. Such de-prioritisation resulted in interacting more passively with the market to avoid unacceptable price impact to the detriment of the Client's interests.

Thus, the relative importance of each factor was determined by the execution criteria and our assessment of those criteria determined our approach to trade.

CIL's focus over the last year has been predominantly focussed on the expansion of execution venues and liquidity providers, in parallel with the significant trading volume growth we have experienced. The addition of extra counterparties has enabled us to strengthen both our client platform and the stability of our business. In parallel with this the comprehensive use of Surveillance tools, it provides a robust framework to satisfy our obligations to our clients.

In the assessment of our trading activity, CIL process focused on the outcomes that were achieved for the Clients and whether CIL was consistently providing Clients the best possible outcome that could have been achieved under prevailing order and execution circumstances. Overall, we are satisfied that we acted in adherence with our best execution framework.

**Table 1: Top 5 Venue Analysis for Equities**

Class of Instrument	Equities		
Notification if <1 average trade per business day in the N previous year			
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of direct
Instinet Europe Ltd	94.3%	97.20%	0%
Nomura International	4.8%	1.16%	0%
Morgan Stanley International	0.4%	1.05%	0%
Pershing Securities Ltd	0.5%	0.59%	0%

**Table 2: Top 5 Venue Analysis for ETFs**

Class of Instrument	ETF		
Notification if <1 average trade per business day in the N previous year	N		
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of direct
INSTINET	95.57%	96.77%	0%
Pershing Securities Ltd	4.17%	3.17%	0%
Morgan Stanley International	0.26%	0.06%	0%

**Table 3: Top 5 Venue (Exchanges) for Equity /ETF**

Class of Instrument	Equity & ETF		
Notification if <1 average trade per business day in the previous year	Y		
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	P
NASDAQ	18.54%	6.64%	0'
EDGX	8.62%	4.71%	0'
NYSE Arca	8.10%	4.74%	0'
CXE (Cboe Europe Equities)	6.76%	8.52%	0'
BATS	6.21%	3.64%	0'

**Fixed Income (Credit)**

Orders for bonds are generally placed on over-the-counter (OTC) markets. The OTC markets, which are characterised by proprietary trading transactions, are decentralised, fragmented and have low pre-trade transparency, because the counterparties generally do not make the prices quoted available to a broad market. Rather, these prices are negotiated on a bilateral basis with the counterparties. These counterparties often have proprietary holdings in these instruments, for which they quote prices. Unlike on the equity markets, the choice of counterparties for bonds is often limited. In many cases, as the products are only offered by a limited number of counterparties, there is limited transparency in terms of liquidity or price. In volatile non-transparent markets, it may be necessary to accept the first price offered without the opportunity to obtain or request other prices. Moreover, there may be bonds offered exclusively through one counterparty, or for which settlement of an order of a certain size can only be guaranteed by one counterparty, in which cases it is not possible to obtain a comparative offer. The various instruments are traded with the counterparties either electronically or by telephone.

Given the range of credits traded, the availability to price and liquidity were the focus execution factors, with the likelihood of execution becoming the key priority as liquidity declined. Thus, our focus in monitoring best execution factors were: price and likelihood of execution, followed by the impact, cost, speed and other related factors.

Our choice of brokers, all of whom are authorised and regulated by the Financial Conduct Authority in the United Kingdom, reflects a combination of the commercial factors of early stage business and brokers who can facilitate a broad range of Government and Corporate Credit trading across the capital structure in both developed and emerging markets.

In this selection process, CIL considered various third-party executing broker that could consistently achieve best execution for CIL and its Clients. With the growth of the business over the course of 2018, two additional brokers have been added to complement and enhance our execution capabilities. With the expanded remit of credits that our clients wish to trade, these additional brokers have provided a valuable source of available liquidity in notoriously illiquid

environments. With the factor prioritisation of obtaining liquidity a key consideration along with price, the outcomes obtained for our clients have satisfied both our clients needs and our internal focus on the provision of best execution.

We note that during the third quarter of 2018, some structural changes in CIL's credit trading capabilities occurred. The "CIL Global Credit" division was discontinued. The CIL Prime fixed income flows continuing to be traded via CIL's Prime Service division

We concluded that our broker selection was consistently able to access liquidity to facilitate our Clients trading, with resultant executions achieving or improving desired price targets.

The combination of Client satisfaction upon execution, achieving the key likelihood of execution and price factors supports our view that we acted in both our Clients' best interests and in adherence with our best execution framework.

**Table 4: Top 5 Venue Analysis for Fixed Income**

Class of Instrument <b>(1)</b>	Fixed Income		
Notification if <1 average trade per business day in the previous year <b>(2)</b>	N		
Top five execution venues ranked in terms of trading volumes (descending order) <b>(3)</b>	Proportion of volume traded as a percentage of total in that class <b>(4)</b>	Proportion of orders executed as percentage of total in that class <b>(5)</b>	Percentage of directed order
BANCA IMI	34.90%	59.50%	0%
IBP	11.59%	29.75%	0%
Nomura International	53.51%	10.74%	0%

#### **FX & Related Derivatives / Other Asset Class Listed Futures & Options**

As with our Fixed Income trading, our choice of broker reflects a combination of the commercial factors of a relatively early stage business with a broker who could provide access to the broadest range of markets and liquidity in relevant instruments under conditions that are satisfactory to us, our Clients as well as meeting our regulatory obligations at a cost that is acceptable to the Client. For the execution of orders in FX & Related Derivatives / Other Asset Class Listed Futures & Options CIL selected Nomura International Limited, authorised and regulated by the Financial Conduct Authority in the United Kingdom. In selecting Nomura, CIL considered various third party executing broker that could consistently achieve best execution for CIL and its Clients. In the latter part of 2018, for FX execution CIL also added Pershing Securities Ltd to enhance our abilities to execute spot and forward transactions both in developed markets and more esoteric emerging markets.

CIL believes that routing orders via Nomura and Pershing enables it to obtain results for its Clients that are at least as good as the results it could reasonably expect to obtain if CIL was a member of execution venues in its own right.

In parallel with CIL's expanding its business, it is continuing to adapt its best execution process to regulatory and market microstructure changes and is looking to add new trading venues and adapt routing structures in the future. The addition of an institutional standard trading platform by our new broker further enables us to access liquidity.

Trading is conducted via an electronic platform, whereby CIL traders seek to execute a Client's order in accordance with any instructions the Client may have specified when placing the order. Any best execution requirements were exercised within the confines of such Client specific instruction.

If for any reason a Client's instructions could not be met (e.g. due to rapidly changing market conditions, CIL followed up with the Client to inform them of such and requested further instruction.

Clients that provided CIL with discretion for the purpose of the execution of an order, the CIL traders gave priority to price, speed and the expected impact in the market. Best execution monitoring/surveillance was conducted on an individual execution level and reviewed CIL's trading desk. Such reviews were done in real time and the broker was engaged immediately regarding executions requiring a follow up.

Dependent on the nature of the order, these factor priorities changes, with more esoteric currency pairs or illiquid instruments, the prioritisation focused on the likelihood of execution and price.

Transactions were further monitored for best execution obligations in a similar manner as those in equity and fixed income markets. As necessary, we have consistently achieved to source liquidity and pricing with executions satisfying the Client's objectives. Overall, we are satisfied that we have been able to facilitate our Clients execution needs, with resultant executions providing Clients with the best outcome under prevailing order and execution circumstances.

We are satisfied that the combination of Client satisfaction upon execution, price and speed factors being met, within a liquidity driven framework, we acted in adherence with our best execution framework.

**Table 5: Top 5 Venue Analysis for FX**

Class of Instrument	FX		
Notification if <1 average trade per business day in the previous year	N		
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of class	
Nomura International Limited	98.20%	96.30%	
Pershing Securities Ltd	1.80%	3.70%	

**Table 6: Top 5 Venue Analysis for Listed Futures & Option**

Class of Instrument	Listed Futures & Option		
Notification if <1 average trade per business day in the previous year	Y		
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of direct
Nomura International Limited	100.00%	100.00%	0%