



# OTC Equity Derivatives and Convertible Bonds Annex to the Order Execution Policy – Corporate Bank, Investment Bank & Capital Release Unit Divisions



## 1. Introduction

This Annex provides specific information on the approach to best execution taken by Deutsche Bank when handling or executing Orders in equity derivative and convertible bond transactions on behalf of Professional Clients as required by MiFID II and Applicable UK Rules. The term “Client” should therefore be interpreted as referring to Professional Clients only in the context of this Annex.

This Annex should be read in conjunction with Deutsche Bank’s overarching Order Execution Policy, available at <https://www.db.com/order-execution-policy> (the Policy). All defined terms which have not been defined in this Annex shall have the meaning given in the Policy.

## 2. Scope

The Deutsche Bank CRG Equities business offers Clients a number of different products, including:

- i. Flow Derivatives (both index and single stock);
- ii. Structured Derivatives (both securitised and non-securitised, including any secondary market and unwinding activity);
- iii. Bespoke Corporate Derivatives;
- iv. Convertible Bonds.

This Annex therefore covers Orders in the following asset classes:

- Debt instruments;
- Bonds;
- Equity derivatives;
- Securitised derivatives; and

together, the Equity Derivative and Convertible Bond Asset Classes.

Deutsche Bank’s assessment of whether the Client places legitimate reliance on Deutsche Bank to deliver best execution in accordance with the Four Fold Test and the application of Deutsche Bank’s best execution framework to these situations is set out below.

Deutsche Bank considers that the CRG Equities franchises operate in a highly competitive market environment where they interact with sophisticated Clients. As detailed in the Deutsche Bank Terms of Business, Deutsche Bank trades with such Clients in a principal capacity only. Transactions normally arise as a result of Request for Quotes (“RFQ”) initiated by Clients. In line with this practice, Clients can easily obtain access to several sources of liquidity, compare multiple quotes, and decide which ones to accept and which ones to reject.

Based on these considerations and by reference to the Four Fold Test, Deutsche Bank has concluded that, whilst it always endeavours to provide competitive prices, Clients will not generally place legitimate reliance on Deutsche Bank, and therefore Deutsche Bank does not owe best execution obligations to the Client.

However, Deutsche Bank has identified the following specific cases where a duty of best execution is likely to be owed to its Clients:

Deutsche Bank will owe a duty of best execution to Clients in respect of transactions where the final price of an equity derivative product or convertible bond is at least partially determined by the execution of Deutsche Bank’s hedge (“Working Delta” trades). The circumstances in which this could potentially occur include certain transactions in Flow Derivatives, Structured Derivatives (both securities and non-securitised), Bespoke Corporate Derivatives and Convertible Bonds. With respect to these products, where the final price paid by the Client will be determined by the price level at which Deutsche Bank has been able to execute its hedging trade, the execution of the hedging component will be carried out in compliance with best execution rules.



Finally, in limited circumstances where CRG Equities Sales personnel receive an Order in Flow Derivatives from a Client, they will, subject to any explicit instruction from the Client (see section 2.2 of the Policy), pass such Order on for execution to the Listed Derivatives team. The Listed Derivatives team will execute such Order in line with the principles outline in the Listed Derivatives Annex.

Although Deutsche Bank has concluded that best execution does not typically apply in certain of the circumstances outlined above, there may be limited circumstances in which, following the application of the Four Fold Test, it cannot be clearly established whether or not a Client is placing reliance on Deutsche Bank. In such circumstances, Deutsche Bank will consider if, on balance, the Client is likely to be placing legitimate reliance on it and, if it determines that it is, Deutsche Bank will provide best execution when executing the Order.

It is important to be aware that even in the circumstances described above where the best execution obligation does not apply, we are still required to treat our Clients fairly and to manage any conflicts of interest that may arise.

### 3. Execution Factors and Order Handling

When executing transactions where best execution applies, Deutsche Bank will take the Execution Factors into account as part of its obligation to take all sufficient steps to obtain the best possible result for its Clients. The key execution factors that Deutsche Bank will consider are price, cost, speed, size and likelihood of execution. The relative importance that Deutsche Bank assigns to each of the Execution Factors depends upon the particular Order and/or transaction to be executed. For Working Delta trades, the relative importance of each execution factor is consistent with (i) the approach taken in respect of cash equities (as described in the Cash Equities Annex) when the delta hedging element of the trade involves transactions in cash equities, and (ii) the approach taken in respect of listed derivatives (as described in the Listed Derivatives Annex) when the delta hedging element of the trade involves transactions in listed derivatives.

For all residual circumstances, Deutsche Bank has regard to the nature of the transaction, such as the size of the transaction, any specific terms, the overall complexity of the transaction (including the type and duration of the Order it receives and any other consideration which it deems relevant to the execution of the Order, such as the potential impact on the market of the execution). By considering these factors as an initial step, Deutsche Bank is able to determine which of the Execution Factors are most important and the weight that it should give to each.

Typically, the price of the transaction excluding our own execution charges is given the greatest weight. However, where circumstances exist such that the usual prioritisation of the Execution Factors would not result in the best outcome for the Client, Deutsche Bank will determine the relative priority of each Execution Factor on an order-by-order basis. This means that there may be circumstances in which other factors are assigned a greater weight than price. These factors may include:

- size: The likelihood that Deutsche Bank are able to fill an Order of the size anticipated at an appropriate price.
- likelihood of execution of settlement: this is the likelihood that Deutsche Bank are able to fill an Order in the size specified (or at least a substantial part of it), in its entirety, and the likelihood that we can settle the transaction in a timely fashion once executed;
- speed: this the pace at which we are able to progress and Order; and
- costs: these are the costs incurred by the Client that relate to the execution of the Client's Order.



An example of where other factors may be assigned a greater weight than price is where access to liquidity in the relevant product is constrained in some way, such as where the product is illiquid. In such a case, the likelihood of execution and settlement in view of the size of the Order may be assigned a greater weight than price by Deutsche Bank. Speed is usually something that is assigned a greater weight if the nature of the Client Order or market conditions means that this factor is more important than price, but this will depend on the nature of the Order and other relevant considerations, which will be considered upon receipt of the Order. In the majority of cases, costs are usually not considered to be of high importance, given that there are typically no significant third party costs associated with the execution of these financial instruments.

Ultimately, the Execution Factors will vary depending on (i) general market conditions during the period of execution, including volatility and available market liquidity, and (ii) the precise terms and complexity of the transaction.

Deutsche Bank reserves the right to consider all the Execution Factors and their relative weighting in light of the specific circumstances and instructions relating to individual transactions.

#### **4. Order Routing**

In conducting its delta-hedging activity, Deutsche Bank may use smart order routing technology to access liquidity. In doing so, the CRG Equities business will predominantly rely on the infrastructure provided by the Electronic Equities and Listed Derivatives businesses. Please refer to the relevant Annexes.

In limited circumstances, Deutsche Bank may also engage the services of Third Party Brokers (see section 4.2 of the Policy) to assist in handling and executing delta-hedging activity where this is required or suggested in order to follow our Execution Factors (e.g. on the basis of size and/or price impact considerations).

#### **5. Execution Venues on which DB places significant reliance**

Deutsche Bank itself is the sole Execution Venue used for executing Orders in Equity Derivative and Convertible Bond Asset Classes for Clients and therefore is the Execution Venue on which it places significant reliance in meeting its obligation to take all sufficient steps to achieve the best possible result for Clients on a consistent basis. Deutsche Bank has determined, based on analysis, that by internalizing all Orders it is able to obtain best execution for Clients on a consistent basis. Deutsche Bank reasonably expects that, by selecting this Execution Venue, it will be able to obtain results for Clients that are at least as good as the results that it could reasonably expect from using alternative Execution Venues.

Deutsche Bank does not transmit orders in Equity Derivative and Convertible Bond Asset Classes to any other entities for execution.

See Section 8 of the Policy for the risks associated with OTC execution.

#### **6. Order Monitoring and Governance**

Deutsche Bank will monitor the effectiveness of its execution arrangements and Policy, including this Annex, in accordance with section 6 of the Policy.