



# Best Execution and Order Handling Principles Standard

## **Purpose**

The purpose of this Standard is to meet the firm's regulatory obligation under the Rule book for regulation as a Dealing Member of the Nigerian Stock Exchange. Absa Securities Nigeria Limited (Absa) is required to take all reasonable steps to seek to obtain, when executing orders on behalf of clients or decision to deal, the best possible results for its clients considering the criteria and factors set out in this Standard.

The Best Execution and Order Handling Principles Standard sets out Absa's approach in respect of client order execution. The standard is in line with the Rules on Order Handling and Best Execution of the Nigerian Stock Exchange Rulebook and Absa Group Limited ("AGL") Best Execution and Order Handling Principles Standard.

The primary objectives of the Standard document are to:

- a. Provide the principles applicable to ensure best customer experience in the execution of transactions and to support a consistent approach;
- b. Provide the requirements applicable to the delivery of best execution;
- c. Highlight the Monitoring and Demonstration requirements for the delivery of best execution;
- d. Provide governance requirements applicable to best execution; and
- e. Provide order handling principles.

## **Best Execution**

When executing a client's order, Absa considers the following criteria for determining the relative importance of the execution factors:

- a. the characteristics of the client, including the categorization of the client.
- b. the characteristics of the client order i.e. Good Till Month (GTM), Day Order, Good Till Open (GTO), Fill or Kill (FOK), All or None.
- c. the characteristics of securities that are the subject of that order, including expected return, risk, liquidity, and volatility.

Absa reviews its execution arrangements at least once a year and inform clients of any significant changes. Additionally, a review must be conducted whenever a material change occurs that impacts the execution arrangements. When engaging in a transaction with a client located in a foreign jurisdiction, Absa consults the relevant guidelines to confirm that the transaction is permissible with that specific client.

## **In Scope Transactions and Legitimate Reliance**

In Scope Transactions are all transactions executed on behalf of a client, where the client is legitimately relying on Absa to protect its interests. When Absa executes a trade on behalf of a client who legitimately relies on the business to protect their interests regarding pricing and other transaction elements (such as speed or likelihood of execution and settlement), those interests may be impacted by the choices Absa makes during execution or when placing the transaction with brokers or other third parties.

A client may still legitimately rely on Absa even when:

- a. They have accepted a quote;
- b. The relevant business area is dealing with them on a principal basis;
- c. The client has provided specific instructions about certain elements of the transaction; and
- d. The client has provided specific instruction about certain elements of the transactions that are not otherwise subject to the specific instruction.

## **Delivery of Best Execution**

### **1. *The Role of Price and Other factors in the Execution of Transactions***

Where it is determined that Absa owes the client a duty of Best Execution for a transaction, it must take all necessary steps to get the best possible result for the client. To determine what the best possible result is, the following factors must be considered:



- a. Price;
- b. Transaction costs relevant to the execution;
- c. Speed of execution;
- d. Likelihood of execution and settlement;
- e. Size and nature of the order;
- f. Likely market impact;
- g. Nature of the market for the financial instrument; and
- h. Any other consideration deemed relevant to the execution of an In Scope Transaction.

When Absa deals on its proprietary account and the counterparty is an Absa client, Absa will ensure the transaction is treated as the execution of the client's order, not its own. Absa will not combine a client's order with a transaction for its proprietary account.

To determine the relative importance of the execution factors, Absa must consider the characteristics of:

- a. The transaction in question;
- b. The financial instruments that are the subject of the transaction; and
- c. The Execution Venues<sup>1</sup> to which the client transaction can be directed.

## 2. Cost

Costs to clients are one of the execution factors that must be considered in determining whether a client has received Best Execution. There are three broad categories of costs.

- a. **Implicit Costs:** Implicit costs are the market impact costs of executing a transaction (e.g., spreading a transaction over time to minimize market impact, potentially lowering total costs compared to executing a large transaction immediately). While implicit costs can only be fully assessed after execution and are hard to quantify during a transaction, Absa must evaluate the likely implicit costs of their execution strategy and decide if it is suitable for the transaction.
- b. **Explicit External Costs:** Explicit external costs are any costs which are incurred in relation to a transaction and passed on to clients (e.g. external commissions, fees, taxes, exchange fees, clearing or settlement costs). When executing In Scope Transactions for clients, Absa is required to assess the explicit costs of their execution strategy and determine whether, given those costs, the strategy is appropriate for that transaction.
- c. **Explicit Internal Costs:** Explicit internal costs represent Absa's own fees and charges for executing a transaction (e.g. funding and capital charges, commission). These costs must be taken into account when deciding where to execute a transaction (e.g. if a transaction could be executed either internally or on a third party Execution Venue). Where price is the primary execution factor and if the total cost of executing the transaction (i.e. including explicit internal/external costs) would be higher internally, then the transaction must be executed on the third party Execution Venue.

## 3. Specific Execution Instruction from Clients

Where the client provides Absa with specific instructions relating to the execution of its transaction (e.g. regarding Execution Venue, timing or price) Absa must execute the client transaction in accordance with those instructions. Specific instructions may also come in the form of a direction on how the execution factors should be prioritised. This will determine which execution factors are important and therefore what constitutes the method of delivering the Best Execution of that transaction.

Absa must not induce clients to instruct them to execute an order in a particular way, either by expressly indicating or implicitly suggesting the content of the instruction to the client, when Absa ought reasonably to know that an instruction to that effect is likely to prevent it from obtaining the best possible result for that client.

---

<sup>1</sup> Execution venue means a regulated market or any other trading facility that performs a similar function. Absa Securities Nigeria Limited is a member of and places significant reliance on the Nigerian Stock Exchange as a venue when executing orders.



However, if following a client's specific execution instructions would be inconsistent with Absa's Policies, Standards and Procedures, Absa must communicate to the client that the instructions cannot be followed. It should be noted that where the instruction does not cover all components of the trade, any remaining discretion by Absa will still be subject to Best Execution.

#### **4. Client Communications**

Absa must communicate to clients an assessment of where Best Execution applies. Any communications with clients must clearly convey that the client cannot rely on Absa to protect their interests in relation to those transactions that are not assessed as within scope for Best Execution.

Such communication may be satisfied by a once-off communication to clients rather than on a transaction-by-transaction basis. Any changes in the communicated approach must be clearly communicated to clients.

### **Order Handling**

The Client Order Handling Principles apply when Absa executes orders for clients. An order is a client instruction with specific parameters for a transaction, possibly allowing some discretion by Absa. The client understands that the transaction can be executed without needing further communication, instruction, or confirmation.

#### **General Principles of Order Handling**

Absa must implement procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders, relative to Absa's trading interests.

Absa must act fairly in executing Own Account Orders and manage any potential conflicts of interest accordingly.

When carrying out client orders, Absa must satisfy the following conditions:

- a. Ensure that orders executed on behalf of clients are promptly and accurately recorded and allocated;
- b. Carry out otherwise comparable client orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise. Client orders should not be treated as otherwise comparable if they are received by different media and it would not be practicable for them to be treated sequentially.

In addition, Absa must not misuse information relating to pending client orders and must take all reasonable steps to prevent the misuse of such information by any of its employees.

#### **Aggregation of Orders**

Absa shall not aggregate a client order with another client order or Own Account Order, unless the following conditions are met:

- It is unlikely that the aggregation will disadvantage any client whose order is to be aggregated;
- It is disclosed to each client whose order is to be aggregated that the effect of aggregation may work to its disadvantage in relation to a particular order;
- If a client order is aggregated with one or more other orders and the aggregated order is partially executed, it must allocate the related trades in accordance with its Order Handling Procedures.

#### **Aggregation of Own Account Orders**

Absa shall not aggregate a client's order with a transaction for their own account.

### **Monitoring and Review**

Absa will monitor processes to identify transactions that may not have met order execution requirements as outlined in this Standard through assurance undertaken mainly by the second or third lines of defence.

### **Record Keeping**

Absa will maintain records in sufficient detail to show particulars of all transaction undertaken, in line with local regulatory requirements.