



**RTS 28 Qualitative Report**

**Annual Qualitative Report on the Quality of Execution Obtained**

**Reporting Firm:** China International Capital Corporation (UK) Limited (“CICC UK” or “Investment Firm”)  
**Reporting Period:** 01/01/2020 to 31/12/2020

This report is being made pursuant to COBS 11.2A.39R of the FCA Handbook, Article 65(6) of Commission Delegated Regulation (EU) 2017/565 (“MiFID II Delegated Organisational Regulation”) and Article 3(3) of Commission Delegated Regulation (EU) 2017/576 (“RTS 28”) which require MIFID investment firms to disclose, on an annual basis, for each class of financial instruments traded for clients during the period, a summary of the analysis and conclusions drawn from the execution quality monitoring that the investment firm has undertaken.

Classes of Financial Instrument traded during the period	Comments
Equities – Shares & Depositary Receipts (i) Tick size liquidity bands 5 and 6 (from 2,000 trades per day) (ii) Tick size liquidity bands 3 and 4 (from 80 to 1,999 trades per day) (iii) Tick size liquidity bands 1 and 2 (from 0 to 79 trades per day)	The orders represented in the 2020 RTS Quantitative Table that is published at the same time as this 2020 RTS Qualitative Report comprise every order <sup>1</sup> of Equities – Shares & Depositary Receipts received and transmitted by the Investment Firm. The majority of orders were transmitted to executing brokers that are part of the China International Capital Corporation group (“CICC Group”). The orders were almost all executed on one of three third-country execution venues, namely the Stock Exchange of Hong Kong (“SEHK”), the Shanghai Stock Exchange (“SSE”) and the Shenzhen Stock Exchange (“SZSE”), with only very occasional executions on “lit” exchanges in other Asian jurisdictions, European jurisdictions, or in the United States (“US”). Each of the three primary exchanges publishes average daily and monthly volumes of securities and orders traded, and through a manual process it would be possible to calculate an average daily number of orders for each security represented in the orders of the Investment Firm, and then determine the applicable liquidity band (i), (ii) or (iii) as specified in RTS 28. The Investment Firm is satisfied that given the wide selection of securities in respect of which orders are received, the securities represented in the orders would in practice fall into one of the three liquidity bands and all three liquidity bands would be relevant. The Investment Firm has not produced a separate table for each of the three liquidity bands because each such table would be identical to the 2020 RTS Quantitative Table in all material respects and that alternative presentation

<sup>1</sup> CICC UK has handled a small number of orders for IPO subscriptions, but these are not included in this report. These orders have been omitted because each IPO prescribes a specific subscription arrangement and the quality of execution considerations that RTS 28 is designed to highlight do not arise. Omitting them from the quantitative data removes a source of distortion and results in a more accurate picture for the purposes of RTS 28.

	would not provide any additional information to CICC UK's clients and other parties.
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**(a) Relative factor importance**

*An explanation of the relative importance the firm gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution.*

During the reporting period, CICC UK took all reasonable steps to obtain the best possible result when receiving and transmitting orders on behalf of its clients. Broadly speaking, the more transparent and liquid the market, the more important price is as a best execution factor. The less liquid and transparent the market, the more price will need to be balanced against the likelihood of execution. Detailed execution policies, methodologies and benchmarking depended on the securities traded and market conditions at the time of execution by the executing firm, while individual trading decisions will have turned on the characteristics of a single instrument or the circumstances of a particular trade. For example, by taking account of relevant factors such as market movements and forecasts, in appropriate circumstances the executing firm would prioritise liquidity over price.

CICC UK receives and transmits orders for execution of transactions in equity securities primarily on SEHK, SSE and SZSE. Since all three such markets are liquid and transparent, price will normally be considered with a high relative importance in obtaining the best possible result. However, even for these specific markets, for some clients, orders, or financial instruments, CICC UK's execution brokers may determine that other execution factors are more important than price in order to achieve the best possible result. Typically, apart from the price factor, when executing an order CICC UK's execution brokers will also take into account the following factors:

- The characteristics of the client, order and financial instrument, in that order
- The characteristics of the available execution venues, including costs, speed and likelihood of execution and settlement
- Any other consideration deemed relevant by the execution brokers or CICC UK.

**(b) Venue conflicts**

*A description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders.*

CICC UK transmits all orders for execution of equity securities on SEHK, SSE and SZSE to the relevant one of its affiliates China International Capital Corporation Hong Kong Securities Limited ("CICC HKS") and China International Capital Corporation Limited ("CICCL"). CICC UK transmits all such orders to CICC HKS or CICCL for several reasons. First, CICC Group is a leading execution broker for Chinese securities with significant market share. Since it is CICC Group's policy and practice that all orders for execution on SEHK, or via Stock Connect on SSE and SZSE, received by CICC Group firms anywhere are transmitted to CICC HKS or CICCL respectively for execution, CICC UK gains visibility and transparency into the relevant part of CICC HKS's or CICCL's global order book and flow. Secondly, CICC HKS and CICCL offer CICC UK more competitive commission rates than would be achievable if CICC UK transmitted orders to a third party execution broker in Hong Kong or Mainland China. Thirdly, CICC UK is confident that because CICC HKS and CICCL are affiliates, and operate during Asian trading hours, all orders received and transmitted to CICC HKS and CICCL for execution benefit from more effective communication, more efficient resolution of any issues or errors, and increased certainty of execution and settlement. CICC UK is satisfied that CICC HKS and CICCL will provide an overall better experience to CICC UK's clients because CICC UK is their affiliate.

MiFID II does not prohibit firms from selecting only one execution venue or firm to execute client orders in a given class of financial instruments provided they are able to demonstrate that such a choice enables them to consistently produce the best possible results for their clients. The equities market landscape in Mainland China and Hong Kong differs to that found in the European Union, where there has been a proliferation of execution venues and increased fragmentation of order flow

since MiFID I. SEHK, SSE and SZSE are each respectively the principal execution venue in their respective jurisdiction and equities market segment. SEHK has a statutory monopoly to operate the sole stock market in Hong Kong. The only alternative execution venues to these three “lit” exchanges are systematic internalisers / “dark pools” operated by certain banks or investment firms. Going forward CICC UK will monitor the evolving competitive landscape in the market for execution venue operators for Mainland Chinese and Hong Kong listed equity securities and will consider whether the emergence of any new players, new venue functionalities or execution services would justify including one or more additional execution venues in its agency service offering.

Using a single execution broker which executes on a single venue does not diminish CICC UK’s responsibility to monitor the quality of execution or discharge its obligations under its Order Handling & Best Interests Policy. When using only a single venue, the specific process or methodology that the executing broker uses to execute the order may be just as important in achieving best execution. Indeed, sending an order to be executed on an exchange operating a central order book and using different order types (e.g., limit order, market order) by reference to prevailing market conditions, or executing the order at a closing or opening auction or other specified time of day, may each result in materially different outcomes. Different outcomes may also result from the way in which smart order routers and/or algorithms are calibrated. Similarly, entering an order in one block, versus splitting it into multiple orders, may have a different market impact and thus directly affect the pricing achieved and aggregate cost to the client.

CICC UK’s equities business is predominately agency trading of securities listed in the Greater China region. However, occasionally CICC UK receives orders to trade securities listed on other Asian, Developed European or US execution venues. Any orders for securities listed on other Asian venues are transmitted to CICC HKS for handling, while orders for securities listed on a US venue are transmitted to its affiliate CICC US Securities, Inc (“CICC US”), for reasons similar to those given above for orders transmitted to CICC HKS or CICCL. The analysis above on best execution also applies to these occasional orders for execution on other Asian or US venues.

As mentioned just above, CICC UK also receives agency orders for execution across Developed European markets. These orders are transmitted by CICC UK to three independent (non-CICC Group) external brokers. After an extensive evaluation, CICC UK elected to use the services offered by Instinet Europe Limited (“Instinet”) and Liquidnet Europe Limited (“Liquidnet”), as both offer competitive execution rates and each respectively offers distinct services to CICC UK, that enable CICC UK to offer best execution to its clients. Liquidnet specialises in seeking liquidity and handling blocks, whilst Instinet offers tailored, sophisticated algorithms across all Developed, Emerging and Frontier European markets. Due to an increase in the volume of transactions in Developed European markets during 2020, CICC UK appointed a third external broker, Cowen Execution Services Limited (“CESL”), following another extensive evaluation of potential execution counterparts. CESL was selected because it offers market leading algorithms, covers all major European markets and provides personalised, thorough, comprehensive front and back office services.

CICC UK will review its order transmission arrangements at least annually, or when a material change occurs that affects CICC UK’s ability to continue to obtain the best possible result for its clients on a consistent basis. A material change is a significant event that could impact parameters of best execution such as cost, price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

**(c) Venue payments**

*A description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received.*

N/A. As mentioned above, CICC HKS, CICCL and CICC US offer CICC UK more competitive commission rates than would be achievable if CICC UK transmitted orders to an execution broker outside the CICC Group. For the orders transmitted to Developed European execution venues, CICC UK does not believe that it benefits in any unusual way, or experiences any bespoke service arrangements, when it transmits client orders to Instinet, Liquidnet, and CESL. There were no unusual or bespoke

arrangements between CICC HKS, CICCL or CICC US and the execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received. To the best of CICC UK's knowledge, the same goes for the Instinet, Liquidnet, and CESL interactions and arrangements with the Developed European execution venues selected for CICC UK client orders.

**(d) Venue changes**

*An explanation of the factors that led to a change in the list of execution venues listed in the firm's execution policy, if such a change occurred.*

In addition to the list of execution venues provided in CICC UK's Order Handling & Best Interests Policy, during the reporting period we have used CICCL as our broker for executing a particular sub-set of Stock Connect orders in SSE-listed securities. These particular orders involve the conversion of Global Depository Receipts listed on the London Stock Exchange into their constituent A Shares followed by the disposal of those A Shares on the SSE. CICCL is in the best position to decide how to fulfil an order to trade SSE-listed securities in a manner that is consistent with CICC UK's best execution requirements. This newly added broker is responsive to CICC UK clients wishing to trade or invest in Greater China entities participating in the Shanghai-London Stock Connect scheme. During the reporting period, the volume of this particular sub-set of Stock Connect orders was approximately 1.18 percent of the total number of orders transmitted by CICC UK to all execution brokers.

As mentioned in paragraph (b) above, during the reporting period CICC UK has also utilised the services offered by three independent (non-CICC Group) external brokers for execution of CICC UK client orders on Developed European markets. Please see above for the rationale why they were selected ahead of peers. During the reporting period, the volume of orders transmitted to these three brokers for execution on Developed European markets was approximately 4.43 percent of the total number of orders transmitted by CICC UK to all execution brokers.

**(e) Client categorisation**

*An explanation of how order execution differs according to client categorisation, where the firm treats categories of clients differently and where it may affect the order execution arrangements.*

N/A. CICC UK provides services only to professional clients and does not treat clients differently.

**(f) Retail factors**

*An explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client.*

N/A. CICC UK does not provide services to retail clients.

**(g) Execution analysis tools**

*An explanation of how the investment firm has used any data or tools relating to the quality of execution, including any data published under Delegated Regulation (EU) 2017/575.*

CICC UK uses independent third-party transaction cost analysis tools to assist in its analysis of execution quality provided by all brokers against the activity in the market in order to ensure that they continue to provide best execution. In order to ensure that CICC UK provides standards of reception and transmission that satisfy FCA/MiFID II requirements, it will keep the performance of transaction execution under review, including by periodic formal evaluation of that performance.

**(h) CTP usage**

*Where applicable, an explanation of how the investment firm has used output of a consolidated tape provider established under Article 65 of Directive 2014/65/EU.*

N/A. During the reporting period, no Consolidated Tape Providers had been licensed.