



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

**Firm Name:** China International Capital Corporation (UK) Limited  
**Disclosure Period:** 01/01/2017 to 31/12/2017

This disclosure is being made pursuant to Article 65(6) of the MiFID II Delegated Organisational Regulation (EU 2017/565) and Article 3(3) of RTS 28 (EU 2017/576) which require MIFID II investment firms to disclose, 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
(a) 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 “2017 quantitative table” that is published at the same time as this “2017 qualitative report” comprise every order of Equities – Shares & Depositary Receipts received and transmitted by the Investment Firm. All orders were transmitted to a single executing broker that is a CICC group company. The orders were almost all executed on one of three third country trading 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. 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 “2017 quantitative table” in all material respects and that alternative presentation would not provide any additional information to investors.

**(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 review 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, depending on circumstances the executing firm would prioritize liquidity over price depending on market movements and forecasts.

CICC UK receives and transmits orders for execution of equity securities primarily on the Stock Exchange of Hong Kong (SEHK), the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (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 broker 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 broker will also take into account the following factors:

- The characteristics of the client, order and investment securities in that order
- The characteristics of the available execution venues, including costs, speed and likelihood of execution and settlement
- The size, nature or any other consideration that is deemed to be relevant by the execution broker 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 its affiliate China International Capital Corporation Hong Kong Securities Limited (CICC HKS). CICC UK transmits all such orders to CICC HKS for several reasons. First, the CICC Group is a leading execution broker for Chinese securities with significant market share. Since it is the 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 for execution, CICC UK gains visibility and transparency into CICC HKS's global order book and flow. Secondly, CICC HKS offers CICC UK more competitive commission rates than would be achievable if CICC UK transmitted orders to a third party execution broker in Hong Kong. Thirdly, CICC UK is confident that because CICC HKS is an affiliate, and operates during Asian trading, all orders received and transmitted to CICC HKS for execution benefit from more effective communication, more efficient resolution of any issues or errors, and increased certainty of execution. CICC UK is satisfied that CICC HKS will provide an overall better service to CICC UK's clients because CICC UK is its 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 get the best 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 trading 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 trading venues to these three "lit" exchanges are "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 Order Handling & Best Interests Policy.

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 best interests obligations. When using only a single venue, the specific way that the executing broker executes the order may be just

as important in achieving best execution. Indeed, sending an order to be executed on the central order book using different order types (e.g., limit order, market order), 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 aggregate cost to the client.

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 offers CICC UK more competitive commission rates than would be achievable if CICC UK transmitted orders to a third party execution broker in Hong Kong. There were no arrangements between CICC HKS and the execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received.

**(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.*

N/A. There was no change in the list of execution venues listed in CICC UK's execution policy.

**(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 CICC HKS against the activity in the market overall in order to ensure that CICC HKS continues to provide best execution. In order to ensure that CICC UK provides standards of reception and transmission that satisfy MiFID II requirements, it will keep the performance of CICC HKS' transaction execution under review, including by periodic formal evaluation of its 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 review period, no Consolidated Tape Providers had been licensed.