



CITI MARKETS BEST EXECUTION PROCEDURE HONG KONG

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OVERVIEW

1.1 OBJECTIVE

This document sets out how Citi Markets in Hong Kong performs its obligations in relation to best execution. The document is an external client facing document which is available for clients to review at:

https://www.citibank.com/icg/docs/markets/HK_Best_Execution.pdf

https://www.citibank.com/mss/products/equities/cash_equities/docs/HK_Best_Execution.pdf

The references to “you”, “your” and “yourself” relate to Citi clients.

1.2 SCOPE

This procedure (the “Procedure”) applies when we are executing client orders in financial instruments as set out in Schedule I of this document.

This Procedure applies to all Hong Kong based legal affiliates through which Citi Markets takes client orders, including Citigroup Global Markets Asia Limited, Citibank N.A. Hong Kong Branch, Citicorp International Limited and their licensed personnel, collectively referred to as “Citi HK”, to perform its obligation in relation to Best Execution in accordance with the Securities and Futures Commission’s circular dated January 30, 2018 and the Hong Kong Monetary Authority’s circular dated February 9, 2018.

1.3 EFFECTIVE DATE / TRANSITION PERIOD

This Procedure is effective immediately.

1.4 REVIEW OF THE PROCEDURE

The Procedure will be reviewed annually or when a material change occurs, to consider the effectiveness of this procedure in providing best execution.



2. PROCEDURE

The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission requires that a licensed or registered person executes client orders on the best available terms to deliver best execution.

The Procedure sets forth the general basis on which Citi HK (we refer to ourselves in this Procedure as “Citi”, “we” or “us”) will provide “best execution”, where applicable, as required by the Securities and Futures Commission and the Hong Kong Monetary Authority.

When accepting an order from a client for financial instruments listed on an exchange or otherwise, as set out in Schedule I to this document, and there is no overall agreement with the client and the executing entity, nor any specific instructions regarding the execution method, Citi shall endeavor to execute your order in accordance with this Procedure.

2.1 WHAT IS BEST EXECUTION

Best execution means the requirement to take all sufficient steps to obtain the best possible result for clients, taking into account price, cost, speed, likelihood of execution, size, nature or any other consideration relevant to the execution of an order, when executing client orders.

These factors are known as the “execution factors” and will provide the basis for us to explain how we will provide best execution.

The relevance and the relative importance of execution factors will depend on the characteristics of your order, any specific order instructions, asset classes, the instrument and the execution venue or the market.

2.2 WHEN DOES BEST EXECUTION APPLY

We will provide best execution when we are executing an order on your behalf as an agent or as back to back principal¹ or where it is determined that you are placing legitimate reliance on us to provide best execution.

In order to determine if you are placing legitimate reliance on us to provide best execution, we will make an assessment taking into account a number of relevant considerations. The considerations we assess (“Four-Fold Test”) include:

¹ Under paragraph 8.3 part A of the Code of Conduct, back-to-back transactions refer to those transactions where a licensed or registered person, after receiving –
(a) a purchase order from an investor, purchases an investment product from a third party and then sells the same investment product to the investor; or
(b) a sell order from an investor, purchases an investment product from the investor and then sells the same investment product to a third party, and no market risk is taken by the licensed or registered person.

- *whether we or you initiate transactions* - where we approach you and suggest that you should enter into a transaction, it is more likely that you will be placing reliance on us. The reverse is true where you initiate transactions;
- *market practice* – where the practice in the market in which a business area operates suggests you take responsibility for the pricing and other elements of the transaction (e.g. there is a market convention to “shop around” for a quote), it is less likely that you will be placing reliance on us;
- *relative levels of transparency within a market* – if we have ready access to prices in the market in which we operate, whereas you do not, it is more likely that you will be placing reliance on us, whereas if our access to pricing transparency is equal, similar or to your benefit, it is less likely that you will be placing reliance on us; and
- *information provided by us and the terms of our agreements with you* – where our arrangements and agreements with you (including this Procedure) do not indicate or suggest a relationship of reliance or state that we will not provide best execution, it is less likely that you will be placing reliance on us.

If best execution does not apply, this will remain the case notwithstanding that you may have been referred from one business area within Citi HK to another for the purposes of entering into a transaction.

This document should help you understand when we are executing an order on your behalf, but if at any time you are unsure, please contact Citi (see Contact Details section below).

2.3 COMPLIANCE WITH CLIENT INSTRUCTIONS

Where you have provided a specific instruction with regards to an order, we will take all reasonable steps to execute your order in accordance with such instructions, subject to any internal controls, but does not guarantee execution in full or at prices specified by you. You should be aware that to the extent that we accept and follow your instructions, we will have satisfied our best execution obligations with respect to that aspect of the order, although best execution may still be applicable to other execution factors to the extent that they are not covered by your instructions.

For example:

- where you instruct us to execute your order on a particular venue, we will not be responsible for selecting the venue, but best execution may apply in relation to other aspects of the order not covered by your instructions; or
- where you instruct us to execute your order at a particular time or over a particular period, regardless of the price available, we will endeavor to execute your order at that time or over that period in the best possible manner but best execution obligations will not apply to the timing or any of the consequences for price or other factors that result from the timing of execution to the extent that we have followed your instructions.

Where you give us a specific instruction it may prevent us from taking the steps that we have designed and implemented in order to obtain the best possible result for the execution of those orders in respect of the elements covered by those instructions.

2.4 WHEN DO WE PROVIDE BEST EXECUTION AND WHAT ARE OUR ARRANGEMENT FOR ENSURING BEST EXECUTION IS ACHIEVED ON A CONSISTENT BASIS?

2.4.1 GENERAL

We will provide best execution in the circumstances described in section 2.2.

Unless otherwise indicated in this document or in other communications with you, price is generally considered the key execution factor. The overall value of a particular transaction to you may be affected by the other execution factors and the relative importance of each of the factors will differ depending on:

- the characteristics of your order;
- the characteristics of the financial instruments to which your order relates; and
- the characteristics of the venues (if there is more than one) where we are able to execute your order.

2.4.2 PRODUCT SPECIFIC PROCEDURES

Product specific procedures for the following classes of products are set out in the Annex A to this Procedure:

- Equities;
- Fixed Income, Currencies and Commodities;
- Futures and other Exchange Traded Derivatives; and
- Distribution of Funds

2.5 IN WHICH CIRCUMSTANCES DOES BEST EXECUTION GENERALLY NOT APPLY

Best execution would generally not apply when we provide a firm risk price, on the basis of a response to a request for quote. In those circumstances we will take the view that there is no legitimate reliance placed on us, taking into account the Four-Fold Test. Accordingly, unless otherwise informed, you should understand that Citi is entering into transactions on its own behalf and not on your behalf. You are understood to be making your own assessment on whether to enter into a particular transaction and as such you should not be relying on Citi to provide best execution in these scenarios.

Best execution may not apply where we receive and transmit orders for you based on your specific instructions.

2.6 EXECUTION VENUES

Factors that we consider in determining the execution venue for your orders in respect of a particular financial instrument include but not limited to:-

- price
- liquidity
- likelihood of execution;

Ordinarily, we would expect that price will merit a high relative importance in obtaining the best possible result. However, in some circumstances for some clients, orders, financial instruments or markets, the other execution factors may be more important than price in obtaining the best possible execution result.

Citi may also use algorithmic models for routing orders to the appropriate venue(s). The design of such models will take into account relevant execution factors in order to satisfy best execution obligations.

2.7 REVIEW OF BEST EXECUTION ARRANGEMENTS

Where we owe a duty of best execution, Citi will monitor the quality and effectiveness of its execution arrangements and assess, that we are providing best execution on a consistent basis.

This will include where we owe a duty of best execution, and pass an order to a broker or dealer, having a process to regularly review and monitor our choice of brokers and dealers to ensure that, taking into account all the relevant factors, the broker or dealer is providing best execution on a consistent basis.

2.8 USE OF OTHER BROKER & DEALERS

We may use an affiliated or a non-affiliated broker or dealer to execute your order. Where we owe a duty of best execution, we will have processes to regularly review and monitor our choice of brokers and dealers to ensure that, taking into account all the relevant factors, the broker or dealer



is providing best execution on a consistent basis. In some cases, however, we may make this determination on the basis of a review of the best execution policy of the relevant broker or dealer.

Where it appears in a particular case that better execution is available from a broker that we do not ordinarily use, we may use such other broker on a case-by-case basis. However, we are not under any obligation to check a variety of brokers with respect to each transaction unless we have otherwise undertaken an obligation to do so in a product specific procedure.

Citi looks at a number of factors when selecting its brokers including accessibility to the relevant market, experience in the relevant market and ability to give up and clear trades. Citi carries out due diligence on all its brokers to ensure they meet the standards required.

2.9 CONTACT DETAILS

Should you have any queries in relation to this Procedure please contact your execution contact.

You can also write to Citi at the below address:

Citigroup Global Markets Asia Limited

50/F, Champion Tower
3 Garden Road, Central
Hong Kong

Citibank N.A., Hong Kong Branch

50/F, Champion Tower
3 Garden Road, Central
Hong Kong

ANNEX A: PRODUCT SPECIFIC PROCEDURES

EQUITIES

1. Cash Equities

1.1 General

We will consider execution price (without any costs charged to you or our own fees and commissions), speed, likelihood of execution, size, nature or any other consideration as deemed relevant by Citi to the execution of an order when executing orders on your behalf. Where you give us parameters (such as VWAP), we will endeavor to execute a transaction or a series of transactions such that the overall execution of the order is achieved within the parameters, taking into account the size of the order, the liquidity available for the instrument or instruments that are the subject of the order, the period over which we may execute the order, and the venues available at the time of the order. In giving us such an order, there are many possible ways that the order could be worked, we will have the discretion to work the order as we believe is in your best interest, except to the extent that you give us specific instructions and the result is, by the nature of the type of order, uncertain.

In some circumstances, and where it is no less advantageous to you, we may internally cross orders instead of seeking execution on another venue. In such circumstances, best execution obligation is still owed and we would be providing you with best execution.

1.2 Direct Market Access and Direct Strategy Access

When you use our Direct Market Access or Direct Strategy Access products, you will have the ability to select certain parameters and strategies for the order yourself. We will follow your instructions to the extent possible, and will not accept responsibility for those parameters selected by you as factors for providing you with best execution. However, to the extent applicable, we will provide best execution based on any remaining factors.

1.3 Program Trading

When we are carrying out non-risk business, we will be providing best execution and will endeavor to provide the best overall result in relation to the aggregate portfolio rather than in relation to individual transactions within the portfolio.

When we have given a risk price, trading a basket of securities, we are acting as your counterparty for our own account and under the Four-Fold Test you will not be placing legitimate reliance on us and, as such, best execution will not be owed.

1.4 Equity Convertibles

The Equity Convertibles market is characterised by limited liquidity. A small proportion of equity convertibles are exchange-traded. Where this is the case and you ask for execution on your behalf on exchange, we will provide that service. However, in most cases we will be acting as your



counterparty for our own account and under the Four-Fold Test you will not be placing legitimate reliance on us. As such, best execution will not be owed.

2. Equity Derivatives

2.1 General Position

We reserve the discretion on how and whether to hedge derivatives. On occasions where Citi provides a firm risk price on the basis of a response to request for quote we take the view that there is no legitimate reliance placed on us in those scenarios because the four-fold test is not met. Accordingly, best execution will not generally be owed.

2.2 Equity Swaps

Where you are trading equity swaps (or similar access products) with us and the initial and/or final price of the equity swaps reflects the price of the underlying hedge, we will provide you with best execution. The best execution applies to the execution by us of the swap, but it is monitored by reference to the execution of the underlying hedge

Where best execution applies and where we determine that it is no less advantageous to you, we may execute the underlying hedge by internally crossing the orders in whole or in part from our own principal book instead of seeking execution on another venue.

The swap transaction fee in our trade confirmations/contract notes is a fee charged by Citi which may not reflect actual market charges (including any taxes, charges or other levies) usually incurred, as we may optimize our hedge in various ways.

In respect of give-in trades, best execution is not owed.

3. Choosing an execution venue

When we execute an order for a financial instrument, we may do so on the exchange where we have direct membership. Where we do not hold a direct membership of an exchange, but other Citi Entit(y) (ies) does, we will generally look to execute on the relevant venue via a Citi Entity. Where we and the other Citi Entities do not hold a direct membership of an exchange, we will look to execute on an appropriate venue via either other Citi affiliates or via approved third party brokers.

In cases where we have a choice of venue, we will endeavor to choose the best venue for the transaction taking into account factors such as price, depth of liquidity speed and likelihood of execution.



FIXED INCOME, CURRENCIES AND COMMODITIES

1. General position

This Product Specific Annex applies to transactions executed by the following groups of products and services that we provide: Spread Products, Commodities and Rates and Currencies.

In relation to these products, a firm risk price is normally provided in response to a request for quote (“**RFQ**”). Best execution does not generally apply when dealing with these business areas. Accordingly, unless otherwise informed following a determination by us that the nature of our activities with you gives rise to a best execution determination in accordance with the factors set out in the Four-Fold Test, you should understand that Citi HK is entering into transactions on its own behalf and not on your behalf. It is understood that you are making your own assessment on whether to enter into a particular transaction and, as such, you should not be relying on Citi HK to provide best execution in these scenarios.

2. Limited Circumstances

In a limited number of instruments and in specific circumstances, the aforementioned businesses may enter into agency or riskless principal transactions. In such circumstances, there may be a Best Execution obligation. In the event specific instructions are accepted and we follow your specific instructions we will have satisfied any Best Execution obligations with respect to that aspect of your order.

3. Referrals

In circumstances where the aforementioned businesses enter into a principal transaction with its clients following a referral or order from another area within Citi HK, the relevant business will be transacting with the client on the basis that the client has full ability to and are likely to approach other dealers for a quote, meaning the client therefore will have full access to pricing transparency.

4. Repo Finance

Repo Finance never acts in an agency capacity on your behalf, nor does it accept orders from you. Best execution does not apply when you are dealing with Repo Finance.

5. Choosing an execution venue

When we execute an order for a financial instrument, the execution will be with Citi HK and its affiliates. In cases where we have a choice of venue, we will endeavor to choose the best venue for the transaction taking into account factors such as price, depth of liquidity, market volatility, speed and cost of execution, and creditworthiness of counterparties.



FUTURES AND OTHER EXCHANGE TRADED DERIVATIVES (“FUTURES”)

1. General position

Futures generally operates an agency business and carries out a number of activities that it treats as being subject to the requirement to provide best execution, including when we:

- receive and execute orders at “screen price”;
- execute orders for clients using algorithmic trading techniques;
- take limit orders from you, particularly in relation to block trades; and
- execute orders on venues.

2. Common exception

On occasions where Citi provides a firm risk price, on the basis of a response to a request for quote, we take the view that there is no legitimate reliance placed on us in those scenarios because the Four-Fold Test is not met. Accordingly, best execution will not be owed.

3. Choosing an execution venue

When we execute an order for a financial instrument, we may do so on the exchange where we have direct membership. Where we do not hold a direct membership of an exchange, but other Citi Entit(y) (ies) does, we will generally look to execute on the relevant venue via a Citi Entity. Where we and the other Citi Entities do not hold a direct membership of an exchange, we will look to execute on an appropriate venue either via other Citi affiliates or via approved external third party brokers.

In cases where we have a choice of venue, we will endeavor to choose the best venue for the transaction taking into account factors such as price, depth of liquidity, market volatility and likelihood of execution.



DISTRIBUTION OF FUNDS

1. General position

When you place an order with us to subscribe for, or redeem, shares / units in a fund, and if your order is accepted, we will execute your order by considering various factors deemed relevant by Citi as follows:

Speed: we will always try to execute your order in a timely fashion. We will endeavor to process any order received before any relevant cut-off time in accordance with the terms applicable to subscriptions or redemptions for the relevant fund under the fund documentation.

Likelihood of execution / size: this refers to the likelihood that we are able to process your subscription and redemption in accordance with your instructions. It depends on the relevant terms under the fund documentation. The fund administrator may consider various factors, such as the fund capacity limits, the client concentration limits and may decide in its sole discretion to place a cumulative trading limit on fund orders in order to manage the overall capacity limits.

Price: with respect to each fund, there is only one subscription or redemption price per class of shares / units for the relevant period as set out in the fund documentation and it is determined in accordance with the relevant terms under the fund documentation. We will execute your order based on this price.

Cost: this refers to the commissions, costs and the fees that are charged on the relevant subscription or redemption price for executing your order. When you place an order with us to subscribe for, or redeem, shares / units in a fund, we do not charge you any transaction cost or distribution fee on the subscription or redemption price for executing the order.

Other factors: the fund documentation usually specifies the procedures that have to be followed in order for an investor to subscribe for, or redeem, shares / units in the relevant fund, and this could limit the applicability of the factors (e.g., choice of execution venue) that can be considered by us when executing your order.

Schedule I: FINANCIAL INSTRUMENTS

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled.
7. Derivative instruments for the transfer of credit risk;
8. Financial contracts for differences;
9. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Schedule, which have the characteristics of other derivative financial instruments
10. Spot Foreign Exchange ("FX")