

Liberum Capital RTS 28 Report for Equities – 2018

(a) 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

In determining the relative importance of the execution factors we will use our commercial experience and judgement, having regard to the following:

- a. the size and characteristics of the order;
- b. the characteristics of the Financial Instrument to which the order relates;
- c. the characteristics of the client;
- d. the possible execution venues to which the order may be directed;
- e. the characteristics of those execution venues to which the order may be directed;
- f. The prevailing market conditions.

In executing client trades Liberum believes that price is the most important Factor in the result desired by the client and is therefore of primary importance. However price is impacted by the size of the trade and particularly the size of the trade relevant to the Exchange Market Size (the maximum number of shares in a listed company that can be traded in a single transaction at the price quoted by the market maker) and accordingly there may be a differential between a price attaching to a displayed size and the price at which a much larger order can be executed. Notwithstanding the foregoing we recognise that the circumstances relating to a particular client, order, financial instrument or market, may give us reason to determine that other Execution Factors are more important than price in obtaining Best Execution for the client.

(b) a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;

In general we direct order flow to a series of algorithms provided to us by a number of banks. Those providers, in turn, provide Smart Order Routing services which select underlying venues in accordance with the conditions put on the order by us as well as the hard coding embedded in the algorithm by the provider, which varies uniquely from algorithm to algorithm. Rarely do we direct order flow to one particular venue although from time-to-time we may route to LSE or Aquis where the firm is a trading member and / or “making markets” in stocks listed on that exchange or MTF. This would occur when the stock is a market made one, or when client and trader instructions deem it necessary to get enhanced liquidity for a customer order by focusing order flow in one venue to get an enhanced chance of successful execution i.e. not splitting the order into many pieces to go to many venues.

Liberum are corporate broker to Aquis as well as being a trading member.

(c) a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;

Liberum has negotiated a flat fee per country with each of its electronic providers which means that the firm does not receive any rebates from trading from MTFs (Multilateral Trading Facilities) or any other venues. Where the company is an exchange member the firm pays a flat fee per trade linked to the volumes of trades in the case of the LSE and a flat licence fee in the case of Aquis.

(d) 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;

Trading venues may be removed when:

- a. they display “toxic” characteristics when analysed on a post trade basis – this means that Transaction Cost Analysis (TCA) will be used periodically and over time the execution quality in different stocks from a range of trading venues can be used to identify good, bad and indifferent execution levels when related to a particular benchmark – in general the Volume Weighted Average Price over a period of time (VWAP) and increasingly when there is adverse signalling and reversion post trade;
- b. trading venues may close or do very little volume which may cause them to be unused / become redundant;
- c. from time-to-time our DMA providers may disconnect trading venues from our algorithm suite in accordance with their internal policies.
- d. Many DMA providers have offered multiple connections to SIs – on the whole we don’t trade a lot with SIs and in T-REX algorithm we have removed all bar 2 of the SIs apart from the ones which have “mid-price streams”.
- e. Some customers can’t consume ELP SI fills (Electronic Liquidity Provider), some can’t consume any SI fills – we have purpose built algorithm suites which won’t go to these upon request from the sales trader.

The underlying settings of most of our dark algorithms are “pegged” as being between “passive” and mid-price – this has negated the need to switch off any venues based on TCA analysis as the firm generally gets better, larger fills from waiting longer for opposite matching flow which crosses the bid offer spread and also mitigates “signalling risk” from algorithms that are used.

(e) 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;

In general customers’ orders are treated in a similar fashion but different types of stocks are treated differently – certain algorithms work better in certain types of stock dependent on the market capitalisation and relative liquidity.

(f) 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;

Liberum does not execute orders for retail clients.

(g) an explanation of how the investment firm has used any data or tools relating to the quality of execution, including any data published under RTS 27;

There are a range of analytical tools available to execution staff – to manage order execution & analysis pre-, during and post- trade. Fidessa (the Order Management System) used by the firm has a range of benchmarks like VWAP which can be embedded in the analyses used by execution staff, as well as Market Intelligence to see trading venues live. Bloomberg has a number of tools such as IVAT (predictive function to model and manage VWAP executions), AQRC (to measure and manage VWAP benchmarks including and excluding OTC trades).

Post trade the firm employs an independent Transaction Cost Analysis Provider (LiquidMetrix) which allows the firm to look at single executions as well as batches of executions per client, stock or time period versus a broad array of benchmarks. This is available on a T+1 basis.

(h) 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.

Whilst the firm does not subscribe to a consolidated tape provider, it uses Bloomberg page AQRC which is effectively a proxy for a consolidated tape.