



Level 3

Global Prime Finance Annex to the MiFID Order Execution Policy – Corporate & Investment Bank – EEA



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1. Introduction

This Annex provides specific information on the approach to best execution taken by Deutsche Bank when handling or executing Orders in its Global Prime Finance (“GPF”) business on behalf of Professional Clients as required by MiFID II. The term “Client” should therefore be interpreted as referring to Professional Clients only in the context of this Annex.

This Annex should be read in conjunction with Deutsche Bank’s overarching Order Execution Policy (at <https://www.db.com/company/en/order-execution-policy.html> the “Policy”). All defined terms which have not been defined in this Annex shall have the meaning given in the Policy.

2. Scope

This Annex covers Orders in the following asset classes:

- Equities – shares & depositary receipts ;
 - Debt instruments – bonds;
 - Equity Derivatives – swaps and other equity derivatives;
 - Securitized Derivatives;
 - Contracts for difference;
 - Exchange traded products,
- (together, **the “GPF Asset Classes”**),

In particular, it covers synthetic equity products. It also covers stock borrowing and lending of the GPF Asset Classes.

3. Legitimate Reliance and Application of the Four Fold Test

In the context of the GPF Business, Deutsche Bank provides a range of execution methods to Clients. Deutsche Bank’s assessment of whether a Client places legitimate reliance on it is determined in accordance with the Four Fold Test. The application of best execution to the different methods of execution offered by Deutsche Bank in the context of the GPF business is set out below.

4. Principal Stock Lending and Borrowing

Deutsche Bank’s Prime Finance Business provides stock lending and borrowing services to Clients. Stock borrowing and lending are carried out on a bilateral basis between Deutsche Bank and the Client. When borrowing or lending stocks, Deutsche Bank’s Prime Finance business acts in a principal capacity, it does not act as an agent on behalf of the Client.

Deutsche Bank considers that where Prime Finance provides stock lending or borrowing facilities, in general, best execution will not be owed for the reasons set out below.

With reference to the Four Fold Test, Deutsche Bank does not consider itself to be carrying out an Order to borrow or lend securities on behalf of the Client. This is because it does not believe that the Client is legitimately relying on Deutsche Bank to protect its interests in relation to pricing or other parameters of the transaction in such circumstances. In the context of stock lending and borrowing, the price is the fee/rebate and this is a function of supply/demand and also determined by reference to counterparty and settlement risk. Deutsche Bank will endeavour to offer competitive fees/rebates and will ensure specific instructions provided by Clients regarding limits and collateral, are followed (see section 2.2 of the Policy). With reference to the Four Fold Test, transactions typically arise as the result of Requests for Quote (“RFQ”) which are initiated by Clients and it is market convention for Clients to “shop around” and obtain quotes from other dealers. In line with this practice, Clients can easily obtain access to



several sources of liquidity, compare multiple quotes, and decide which ones to accept and which ones to reject. There are therefore good levels of transparency within the market.

The Principal Stock Lending and Borrowing business carries out this stock borrowing and lending independently of and separate from the Agency Securities Lending business described below.

5. Synthetic Products

Prime Finance's Synthetic Products provide Clients with the ability to gain delta 1 exposure to single names, global benchmark indices, sector specific and customised baskets/indices through forwards, futures, swaps, structured notes, certificates and P-Notes.

5.1 Worked Orders

Where Deutsche Bank agrees to work a trade in a synthetic product, Deutsche Bank has an obligation to apply the best execution requirements where the final price of the execution is at least partially determined by the execution of Deutsche Bank's hedge.

While best execution is owed in respect of the synthetic product, in practice Deutsche Bank believes that the obligation is discharged when executing hedging transactions in the underlying reference securities, as it is this hedging activity that directly influences the price of the synthetic product. Hedging may be carried out using cash equity instruments or futures.

Execution of the cash hedge is generally carried out by Deutsche Bank's Cash Equity Trading desk, and futures are generally routed through the Listed Derivatives business. The GPF business is therefore reliant on the best execution framework described in the Cash Equities and Listed Derivatives Annexes of the Order Execution Policy.

5.2 Risk Price Trades

Where Deutsche Bank enters into a transaction in a synthetic product on the basis of a risk price, Deutsche Bank assumes risk in relation to that synthetic product. As such Deutsche Bank does not generally consider that the best execution obligations apply in such circumstances. In these cases, Deutsche Bank has concluded by reference to the Four Fold Test that Clients do not place legitimate reliance on Deutsche Bank to achieve the best possible result. It is market convention for Clients to "shop around", request quotes from other dealers, compare multiple quotes and decide which ones to accept. There are therefore high levels of transparency in the market.

5.3 Give-In and Give-Up Trades

Clients may request that a cash equity position executed with one broker ("the executing broker"), be given-up to another broker that is acting as that Client's prime broker (the "give-in/up" process). This process is used as a means of opening or closing a swap position, whereby the cash equity instrument acts as the hedge to that swap. In these circumstances, the cash leg of the transaction will be undertaken in accordance with the Cash Equities Annex.

This is separate and distinct from the give-up process used in the context of derivatives clearing and settlement.

Where Deutsche Bank is the executing broker for the cash leg of a give-up transaction, Deutsche Bank considers that best execution is owed, as the price of the derivative exposure is likely in part to be determined by reference to the level at which the cash leg is executed. Execution of the cash leg is



carried out by DB's Cash Equity Trading desk and is therefore reliant on the best execution framework described in the Cash Equities Annex of the Order Execution Policy. The subsequent cash equity instrument is traded with the Client's prime broker/counterparty that is providing the Client with the derivative exposure.

With regards to give-in/give-up transactions, where Deutsche Bank is not the executing broker and where Deutsche Bank will enter into a swap with the Client, and hold the cash equity instrument to hedge its exposure, in general Deutsche Bank considers that best execution will not be owed by Deutsche Bank to the Client. The price of the swap is determined in part, by reference to the cash leg of the give-in transaction and the client will provide specific instructions to Deutsche Bank regarding the price at which the cash leg should be executed and the counterparty against which the cash leg should be traded.

6. Exchange Traded Funds (ETFs)

The Deutsche Bank ETFs business provides Clients with the ability to gain exposure to underlying benchmark indices through listed investment funds.

6.1 Worked Orders

Where Deutsche Bank agrees to "work" an Order in an ETF, Deutsche Bank owes best execution.

Whilst best execution is owed in respect of the ETF, in practice Deutsche Bank believes that the obligation is satisfied when executing hedging transactions in the underlying reference securities, as this hedging activity directly influences the price of the ETF. Hedging may be carried out using cash equity instruments or futures.

Execution of the cash hedge is generally carried out by Deutsche Bank's Cash Equity Trading desk and futures routed through the Listed Derivatives business. The GPF business is therefore reliant on the best execution framework described in these respective Annexes.

6.2 Risk Price Trades

Where Deutsche Bank trades an ETF with a Client on a RFQ basis, Deutsche Bank assumes risk in relation to that trade and it does not consider that the best execution obligations apply in such circumstances. In these cases whilst Deutsche Bank always makes its best efforts to provide competitive prices, it considers that the Client does not place legitimate reliance on Deutsche Bank (by reference to the various factors in the Four Fold Test) to achieve the best possible result as the Client can easily obtain access to several sources of liquidity, compare multiple quotes and decide which ones to accept.

Although Deutsche Bank has concluded that best execution does not typically apply in certain of the circumstances outlined above, there may be limited circumstances in which, following the application of the Four Fold Test, it cannot be clearly established whether or not a Client is placing reliance on Deutsche Bank. In such circumstances, Deutsche Bank will consider if, on balance, the Client is likely to be placing legitimate reliance on it and, if it determines that it is, Deutsche Bank will provide best execution when executing the Order.

It is important to be aware that even in the circumstances described above where the best execution obligation does not apply, Deutsche Bank is still required to treat its Clients fairly and to manage any conflicts of interest that may arise.

7. Execution Factors and Order Handling



When executing transactions where best execution applies, Deutsche Bank will take the Execution Factors into account as part of its obligation to take all sufficient steps to obtain the best possible results for its Clients.

The relative importance that Deutsche Bank assigns to each of the Execution Factors is usually consistent with the approach taken in respect of (i) cash equities when the hedge element of the transaction involves cash equity instruments (see the Cash Equities Annex); and (ii) listed derivatives, when the hedge element of the transaction involves futures (see the Listed Derivatives Annex). In situations in which the Cash Equities and Listed Derivatives Annexes are not relevant, when determining the relative importance to be assigned to each of the Execution Factors, Deutsche Bank has regard to the nature of the transaction, such as the size of the transaction, any specific terms and the overall complexity of the transaction (including the type and duration of the Order Deutsche Bank receives) and any other consideration which it considers relevant to the execution of the Order, such as available internal and/or external liquidity for the relevant instrument and the potential impact on the market of execution. By considering these factors, Deutsche Bank is able to determine which of the Execution Factors are most important and the weight that it should give to each.

Typically, the price of the transaction excluding our own execution charges is given the greatest weight. However, where circumstances exist such that the usual prioritisation of the Execution Factors would not result in the best outcome for a Client, Deutsche Bank will determine the relative priority of each Execution Factor on an order-by-order basis. This means that there may be circumstances in which other factors are assigned a greater weight than price. These factors may include:

- likelihood of execution or settlement: this is the likelihood that Deutsche Bank are able to fill an Order in the size specified (or at least a substantial part of it), in its entirety, and the likelihood that Deutsche Bank can settle the transaction in a timely fashion once executed;
- speed: this the pace at which Deutsche Bank is able to progress and Order; and
- costs: these are the costs incurred by the Client that relate to the execution of the Client's Order.

An example of where other factors may be assigned a greater weight than price is where access to liquidity in the relevant product is constrained in some way, such as where the product is illiquid. In such a case, the likelihood of execution and settlement in view of the size of the Order may be assigned a greater weight than price by Deutsche Bank. Speed is usually something that is assigned a greater weight if the nature of the Client Order or market conditions means that this factor is more important than price, but this will depend on the nature of the Order and other relevant considerations, which will be considered upon receipt of the Order. In the majority of cases, costs are usually not considered to be of high importance in the GPF Asset Classes, given that there are typically no significant third party costs associated with the execution of these financial instruments, and likelihood of settlement is also not usually assigned a high importance.

Ultimately, the Execution Factors will vary depending on (i) general market conditions during the period of execution, including volatility and available market liquidity, and (ii) the precise terms and complexity of the transaction.

Deutsche Bank reserves the right to consider all the execution factors and their relative weighting in light of the specific circumstances and instructions relating to individual transactions.

8. Order Routing

In conducting its delta-hedging activity, Deutsche Bank may use smart order routing technology to access liquidity. In doing so, the GPF business will rely on the infrastructure provided by the Cash Equities and Listed Derivatives businesses. Please refer to their respective annexes.



Deutsche Bank may also engage the services of Third Party Brokers (see section 4.1 of the Policy) to assist in handling and executing delta-hedging activity where this is required in order to follow our execution factors (e.g. on the basis of size and/or price impact considerations) or is otherwise requested by the Client.

9. Execution Venues on which DB places significant reliance

Deutsche Bank itself is the sole Execution Venue used for executing Orders in the GPF Asset Classes for Clients and therefore is the Execution Venue on which it places significant reliance in meeting its obligation to take all sufficient steps to achieve the best possible result for Clients on a consistent basis. Deutsche Bank has determined, based on analysis, that by internalizing all Orders it is able to obtain best execution for Clients on a consistent basis. Deutsche Bank reasonably expects that, by selecting this Execution Venue, it will be able to obtain results for Clients that are at least as good as the results that it could reasonably expect from using alternative Execution Venues.

Deutsche Bank does not transmit orders in the GPF Asset Classes to any other entities for execution.

See Section 8 of the Policy for the risks associated with OTC execution.

10. Agency Securities Lending

Deutsche Bank's Agency Securities Lending ("ASL") business provides Clients with securities lending services to generate returns on the Client's equity and fixed income long positions.

ASL may also invest cash collateral received from borrowers in respect of these loans, on behalf of Clients. For all securities lending and cash investment transactions that are entered into on the behalf of the Client Deutsche Bank will apply its best execution principles, in order to achieve on a consistent basis, the best possible result for the Client.

In the context of securities lending and borrowing, the "price" is the fee/rebate and this is a function of supply/demand and also determined by reference to counterparty and settlement risk. The fee/rebate rate that Deutsche Bank is able to achieve will be a significant factor, however, there are other material factors that affect a loan and its level. In order to achieve the best possible result on a consistent basis, Deutsche Bank will also take into account the following factors (listed in order of importance):

- Whether the counterparties have been approved by the Client, as well as the counterparties' approval of our Clients;
- Whether a proposed counterparty meets credit risk criteria that Deutsche Bank impose;
- Timing of trade;
- Operational functionality of counterparty
- Market liquidity in lent security;
- Term of trade;
- Collateral parameters;
- Size of transaction;
- Outstanding issued amount of security being lent;
- Rating of lent security;
- Jurisdiction of securities;
- Settlement arrangements and costs of entering into the loan.

Deutsche Bank reserves the right to consider the Execution Factors and their relative weighting in light of specific instructions that the Client provides us and/or the prevailing market conditions.



In order to ensure that loans are fairly allocated between Clients, Deutsche Bank applies a “fair allocation” process. The fair allocation process takes account of factors including but not limited to those outlined above.

11. Investment of Cash Collateral

When investing cash collateral on behalf of its Clients, the Execution Factor of price will typically be assigned the greatest weight by Deutsche Bank. In this context, price is represented by the investment rate of return achieved. The investment rate will be dependent on a number of factors including, counterparty appetite, collateral quality, haircuts, term and structure of trade.

Whilst the investment rate is generally comparable across different counterparties that Deutsche Bank may invest the Clients’ cash collateral with, there are also many other factors that will impact a trader’s decision to trade. When investing cash collateral on behalf of the Client, Deutsche Bank will consider:

- Client limits;
- Diversification;
- Past performance in respect of collateral delivery obligations;
- Consistency of cash investment; and
- Whether the investment coincides with a sensitive period, such as month or quarter end.

The last of these is important to balance some counterparties’ requirements for long term funding with any client preference for short-term investments.

12. Agency Securities Lending as Principal Borrower

In certain circumstances, ASL may enter into Principal lending arrangements with Clients in accordance with its legal agreement and with parameters that the Client sets in this regard. This means Deutsche Bank may borrow securities from the Client in a principal capacity, and may lend these onwards to borrowers. Borrowers may include third party entities, as well as businesses and entities within the Deutsche Bank Group.

Where Deutsche Bank borrows from the Client in a principal capacity, it will seek to achieve the best possible result for the Client by considering the execution factors as set out in section 10 (above). In the context of Securities Finance transactions, the “price” is the fee/rebate and Deutsche Bank will endeavor to offer competitive fees/rebates. Deutsche Bank will observe any parameters set by the Client, such as those regarding minimum fees, collateral quality and maximum lending exposures.

This activity is carried out independently of Deutsche Bank’s Principal Stock Borrowing & Lending business described earlier in this document, and independently of any Deutsche Bank trading desk to which ASL may in turn lend the securities of the Client.

13. Execution Venues

Subject to the below, when Deutsche Bank enters into securities lending transactions on behalf of Clients, all trades will be conducted on an Over the Counter basis. This means there is no official market price or level, and market transparency is limited. Where the Client has not specified counterparties that it is prepared to lend to, Deutsche Bank will approach counterparties directly, through matching systems or counterparties will contact us.

This means that Deutsche Bank itself is the sole Execution Venue used for executing Orders in the GPF Asset Classes for Clients and therefore is the Execution Venue on which it places significant reliance in meeting its obligation to take all sufficient steps to achieve the best possible result for Clients on a



consistent basis. Deutsche Bank considers that by internalizing all Orders it is able to obtain best execution for Clients on a consistent basis. Deutsche Bank reasonably expects that, by selecting this Execution Venue, it will be able to obtain results for Clients that are at least as good as the results that it could reasonably expect from using alternative Execution Venues.

See Section 8 of the Policy for the risks associated with OTC execution.

In certain circumstances, stock lending may also be facilitated through the use of the matching platform Equilend.com. This platform is designed to process transactions on a global basis. The platform increases efficiency by standardising, centralising and automating front- and back-office processes. Use of this system is driven by borrower demand, and helps to drive down costs and increase efficiency.

14. Order Monitoring and Governance

Deutsche Bank will monitor the effectiveness of its execution arrangements and Policy, including this Annex, in accordance with section 6 of the Policy.

<https://www.db.com/company/en/order-execution-policy.html>