

## Morgans Financial Limited (Morgans) – Best Execution Policy

### Background to the introduction of Competition in Australian Exchange markets and Best Execution Policy ('BEP') requirements for Brokers

ASIC published on its website (4 May 2011) the licence granted to Chi-X Australia Pty Ltd (Chi-X) to operate an Australian financial market from 31 October 2011. This followed the Government granting Chi-X the licence under s.795b(1) of the Corporations Act (Cth). This introduced the reality of competition between exchange markets in Australia being the Australian Securities Exchange ("ASX"), ASX Trade Match ("TradeMatch") which covers all securities traded on the ASX Market and ASX Centre Point ("CentrePoint") and Chi-X which initially aimed to cover the S&P/ASX 200 and certain ETFs.

To deal with issues relating to the introduction of competition between exchange markets, ASIC made Market Integrity Rules that are common to markets dealing in equity market products admitted to quotation on the ASX (known as Competition Market Integrity Rules or Competition MIRs). These rules have been made to ensure there is a consistent regulatory framework across all exchange markets that offer trading in ASX-quoted products in Australia.

One of the important matters dealt with in the Competition MIRs is the rules on achieving Best Execution for clients. Market participants must take reasonable steps when handling and executing an order in equity market products to obtain the best outcome for their clients. This is called the best execution obligation.

Market participants could initially meet their Best Execution obligation solely on TradeMatch without being obliged to consider whether they should have access to other markets. This transition period expired on 1 March 2013 and Morgans ("we, our, us") now has an obligation to consider whether it should access all markets in providing a Best Execution policy.

ASIC expect market participants to have the capability to transmit client orders to the markets offering the best execution (outcome) for clients and to consider the respective merits of all order books of licensed markets. However, it is not ASIC's expectation that every market participant must connect to every licensed market.

Morgans is a market participant of ASX and Chi-X. This policy outlines how we execute orders on behalf of Retail and Wholesale clients and how we deal with client orders to ensure compliance with the Best Execution obligation.

The policy applies when we are dealing in cash market products on behalf of a Retail or Wholesale client on one side of a transaction, or on behalf of Retail or Wholesale clients on both sides of a transaction. In the latter case, we will take the requirements of both clients into account as both are owed a duty of best execution.

### Our Policy

Our Policy is that all trades will be executed utilising TradeMatch, CentrePoint (where applicable) and/or Chi-X as we believe it offers the overall Best Execution for our clients.

We will however review our policy on a regular basis (at least annually) taking into account factors like, domestic and global environments, changes in volumes / liquidity and / or other potential new exchanges entering the market, to ensure we continue to meet our Best Execution obligations. Any material changes to the Best Execution policy, will be made available to our clients on our website [morgans.com.au/private-clients/my-client-account/forms-and-downloads](http://morgans.com.au/private-clients/my-client-account/forms-and-downloads)

### Morgans interpretation of Best Execution

As we will be executing client orders on TradeMatch, CentrePoint and/or Chi-X, execution is subject to price-time priority rules, the relevant ASX Operating Rules, Chi-X Operating Rules and ASIC Competition MIRs.

When handling and executing orders on behalf of clients we will endeavour to obtain the best outcome for our clients. Best outcome means different things for different clients.

#### Retail clients

The best outcome for our retail clients means the best total consideration, that is, the best price. Total consideration for a buy order is the purchase price paid by the client (i.e. unit price multiplied by volume) plus brokerage costs and GST. For a sell order, total consideration is the sale price received (i.e. unit price multiplied by volume) minus brokerage costs and GST.

#### Wholesale clients

The best outcome for our Wholesale clients means consideration of a range of factors in addition to best total consideration, including:

- speed
- market impact, and
- execution certainty.

A wholesale client may provide us with standing instructions regarding best execution. For example, a wholesale client may have a standing instruction that market impact is the most important factor in assessing the best outcome if they typically deal in large size.

In addition, a wholesale client can provide us with a written instruction to opt-out of its best execution protection by providing a standing instruction to this effect for up to 12 months. After this time the instruction must be renewed.

## How do we deal with situations where a client provides us with instructions that are inconsistent with us obtaining best execution?

If you provide us with a specific instruction about how an order should be handled and/or executed, we will take reasonable steps to satisfy the instruction. Examples of instructions we may receive from you could include:

- fast execution
- minimising market impact, and
- obtaining greatest execution certainty.

You should note that the use of specific instructions may result in you not obtaining the best outcome i.e. best total consideration.

## What steps may we take to obtain the best outcome for our clients when handling and executing orders?

We take the following approach to handling orders from the time we receive an order from you until the time that it is settled:

- ensure we fully understand your instructions and the type / nature of your order when it is placed. For example,
  - whether there are time, price or size constraints
  - whether the order is at best (entered at the bid or offer – no guarantee it will trade); at limit (entered at the price specified); or at market (take the prevailing price)
  - order expiry – end of day / good for day; good till cancel; or specified date
- consideration of all relevant information about the prevailing market conditions
- ensuring appropriate timing of order entry onto an order book. For example, it may be necessary to delay the entry of an order in a less liquid stock until there is sufficient liquidity to execute against
- differences in Exchange trading hours and the opening and closing price mechanisms
- as a market participant, we reserve the right to exercise discretion to facilitate a clients order to ensure we comply with our obligation to ensure an orderly market (ASIC MIR 5.9.1), and
- where part or all of an order does not immediately trade, the remainder of the order will rest on TradeMatch for execution.

Examples of handling and executing different orders:

- All orders received in the pre-open phase need to be placed as limit orders. These orders should be placed at a price that the client is willing to trade at, while ensuring that the price and volume are part of the opening phase.
- Limit orders that are away from the current market price can be purged on a daily basis. We may also purge orders that we feel are not within or near the current market price. Orders will be purged when a change of the Basis of Quotation occurs.

Orders may be submitted via an automated order system or through a Designated Trading Representative.