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# **SCOTIABANK EUROPE SUMMARY OF THE BEST EXECUTION FOR CLIENTS**

## **Global Banking & Markets**

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## Table of Contents

1	INTRODUCTION.....	3
2	BEST EXECUTION.....	3
2.1	Purpose.....	3
2.2	Client Classification .....	3
2.3	Scope of the Best Execution Obligation.....	3
2.4	Best Execution Obligation.....	4
2.5	Factors to be considered in assessing Best Execution .....	5
2.6	Legitimate Reliance .....	5
2.6.1	Application of the Four-Fold Cumulative Test.....	5
2.7	Execution Venues.....	6
2.7.1	Overview.....	6
2.7.2	Use of Connected Parties for Execution.....	6
2.7.3	Execution of Client Orders outside of a Trading Venue .....	7
2.7.4	Use of a Single Entity of Trading Venue for Execution .....	7
2.8	Commission and Fee Structures.....	7
2.8.1	Competing Execution Venues .....	7
2.9	Client Consent to the Policy and Standard.....	7
3	CONFLICTS OF INTEREST .....	8
3.1.1	Overarching Requirement .....	8
3.1.2	Internalisation and Use of Connected Parties.....	8
3.1.3	Payment for Order Flow (“PFOF”).....	8
	APPENDIX 1 – PRIORITY OF EXECUTION FACTORS BY BUSINESS LINE.....	9
	APPENDIX 2 – EXECUTION VENUES.....	10

## 1 INTRODUCTION

The Bank of Nova Scotia's (BNS)<sup>1</sup> Global Banking and Markets' Order Handling and Best Execution Policy (the "Policy") is designed to address the key regulatory requirements under EU/UK MiFID II and EU/UK MiFIR. Full details of the Policy may be made available on request. In Europe BNS operates out of its branch in London ("BNSL") and its subsidiary in Ireland (Scotiabank (Ireland) Designated Activity Company ("SIDAC")), together BNSL and SIDAC are referred to as "Scotiabank Europe". The Policy is implemented by Scotiabank Europe by means of a Best Execution Standard (the "Standard"). This document is a summary of the Standard.

## 2 BEST EXECUTION

### 2.1 Purpose

Under the EU/UK MiFID II, investment firms must take all sufficient steps to obtain, when executing orders, the best possible result for their clients considering price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order (the "best execution factors").

The FCA and CBI require, among other things, firms to establish and implement an order execution policy to allow it to obtain, for its client orders ("Client Orders"), the best possible result in accordance with the requirements under MiFID II (the "Best Execution Obligation").

### 2.2 Client Classification

The Best Execution Obligation only applies to orders received from Retail and Professional Clients, not Eligible Counterparties as defined in MiFID II Client categorisation. However, an Eligible Counterparty may request to be treated as a Professional Client if the request is made in writing indicating whether the request is for one or more particular services, transactions or products. Scotiabank Europe does not undertake any investment service or activity with any Retail Clients, so only orders received from Professional Clients are within the scope of the Standard.

### 2.3 Scope of the Best Execution Obligation

The Best Execution Obligation applies to Scotiabank Europe when executing orders accepted on behalf of clients or underlying clients in EU/UK MiFID II financial instruments ("Financial Instruments") as defined in Section C Annex 1 of EU/UK MiFID II.

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<sup>1</sup> The Bank of Nova Scotia ("BNS") is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. BNS has a branch in, amongst other countries, the United Kingdom, The Bank of Nova Scotia, London Branch ("BNSL") which is authorised by the Prudential Regulation Authority ("PRA") and subject to regulation by the Financial Conduct Authority ("FCA") and limited regulation by the PRA. Scotiabank (Ireland) Designated Activity Company ("SIDAC") is regulated by the Central Bank of Ireland.

The Best Execution Obligation will not apply where Scotiabank Europe introduces a client to another person, including an affiliate entity.

Scotiabank Europe is not permitted to enter into a contractual exclusion of liability in relation to the Best Execution Obligation.

## **2.4 Best Execution Obligation**

Scotiabank Europe must take all sufficient steps to obtain, when executing orders, the best possible result for their clients considering price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

Where there is a specific instruction in relation to the execution of an order from the client, Scotiabank Europe must execute the order following the specific instruction, to satisfy the Best Execution Obligation.

Scotiabank Europe should not induce clients to instruct the execution of an order in a particular way, by expressly indicating or implicitly suggesting the content of the instruction to the client, when Scotiabank Europe ought reasonably to know that an instruction to that effect is likely to prevent it from obtaining the best possible result for that client is prohibited. However, this should not prevent Scotiabank Europe inviting a client to choose between two or more specified trading venues, provided those venues are consistent with the Policy and Standard. This prohibition includes situations such as the selection of an algorithm or individual parameters of an algorithm.

Scotiabank Europe must not receive any remuneration, discount or non-monetary benefit for routing Client Orders to a particular trading venue<sup>2</sup> or execution venue<sup>3</sup> which would infringe the conflicts of interest or inducements rules.

Scotiabank Europe must be able to demonstrate to its clients, at their request, that it has executed their orders in accordance with the Policy and Standard; and to the FCA or CBI, respectively when requested, that the orders were executed on terms most favourable to the client.

Scotiabank Europe will owe a Best Execution Obligation in any of the following situations (among others):

- a) Scotiabank Europe executes Client Orders;
- b) Scotiabank Europe acts as agent of the client or as riskless principal in relation to a transaction; or
- c) Scotiabank Europe executes a Client Order against the firm's own proprietary position, where it makes decisions as to how an order is executed (including where it works an order).

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<sup>2</sup> Regulated market, multilateral trading facility ("MTF") or organised trading facility ("OTF")

<sup>3</sup> Regulated market, MTF, OTF, systematic internaliser, or a market maker or other liquidity provider or an equivalent third country entity

The Best Execution Obligation applies when Scotiabank Europe executes Client Orders. Dealing on own account with clients by Scotiabank Europe is considered as the execution of Client Orders, and therefore subject to the requirements under MiFID, including those obligations in relation to best execution.

## 2.5 Factors to be considered in assessing Best Execution

When executing a Client Order the following factors will be considered:

- price;
- costs;
- speed;
- likelihood of execution and settlement;
- size of order;
- nature of order;
- type and characteristics of Financial Instrument;
- characteristics of execution venues;
- or any other consideration relevant to the execution of the Client Order.

Scotiabank Europe must consider the following criteria for determining the relevant importance of the best execution factors when executing client orders:

- i) the characteristics of the client including the categorisation of the client as retail or professional<sup>4</sup>;
- ii) the characteristics of the Client Order, including where the order involves securities financing transaction (SFT);
- iii) the characteristics of financial instruments that are the subject of that order; and
- iv) the characteristics of the execution venues to which that order can be directed.

## 2.6 Legitimate Reliance

### 2.6.1 Application of the Four-Fold Cumulative Test

Where Scotiabank Europe is undertaking business in Financial Instruments with a client the Best Execution Obligation will be owed unless the client is not legitimately relying (“Legitimate Reliance”) on Scotiabank Europe to protect their interest in relation to the pricing and other elements of the transactions.

In order to assess Legitimate Reliance, where such a test is permitted, Scotiabank Europe will apply the following four-fold cumulative test:

#### i) Which party initiates the transaction:

<sup>4</sup> BNSL or SIDAC does not undertake investment service or activity with any retail clients.

Initiation by the client such as on a request for quote basis may indicate the client is not relying on Scotiabank Europe whereas if Scotiabank Europe approached the client and suggested the trade, the client is more likely to place 'legitimate reliance' on Scotiabank Europe.

**ii) Questions of market practice and the existence of a convention to “shop around”:**

A common practice or convention in certain wholesale markets (e.g., whole bond markets, OTC markets) for clients to shop around and obtain quotes from multiple dealers executing any transaction indicates that a client is less likely to place 'legitimate reliance' on Scotiabank Europe for best execution of the order.

**iii) The relative levels of price transparency within a market:**

In certain markets where transparent prices are not readily available a client is more likely to place legitimate reliance on Scotiabank Europe.

**iv) The information provided by the firm and any agreement reached:**

The information provided by Scotiabank Europe (e.g., terms of business) to clients should make clear if best execution applies or not, reflecting the economic reality of the relationship. Agreements between parties relating to the services provided and obligations of the parties may be relevant but not determinative.

All the above four tests must be met by Scotiabank Europe in assessing Legitimate Reliance.

## **2.7 Execution Venues**

### **2.7.1 Overview**

The Standard identifies venues or sources of liquidity that enable Scotiabank Europe to obtain the best possible result for the client on a consistent basis when executing orders on behalf of its clients (see Appendix 1). Scotiabank Europe may use one or more of the following execution venues:

- (i) Regulated Markets;
- (ii) Multilateral Trading Facilities (MTF);
- (iii) Organised Trading Facilities (OTF);
- (iv) Systematic Internalisers (principal traders and market makers); and
- (v) Other liquidity providers (including affiliates dealing as principal).

Scotiabank Europe may transmit an order received to another broker or dealer (including affiliates) for execution, in which case Scotiabank Europe will either select the ultimate execution venue itself and instruct the broker accordingly, or Scotiabank Europe will rely on the other broker to select the execution venue. In the latter case, Scotiabank Europe must satisfy itself that the other broker or dealer has arrangements in place to enable Scotiabank Europe to comply with its Best Execution Obligation to the client.

### **2.7.2 Use of Connected Parties for Execution**

Scotiabank Europe may use connected parties including affiliates for the execution of orders on behalf of clients. Use of connected parties is permitted provided they are not placed in a privileged position vis-a-vis other execution venues and the selection is based on application of the execution factors as set out in Appendix 1.

### **2.7.3 Execution of Client Orders outside of a Trading Venue**

Scotiabank Europe must obtain clients' express consent to the execution of Client Orders outside of a Regulated Market, MTF or OTF for Financial Instruments that are admitted to trading on such trading venues. Clients are requested to give such consent by completing a consent notice.

### **2.7.4 Use of a Single Entity of Trading Venue for Execution**

Use of a single entity or trading venue for execution (whether a connected party or external third party) on a consistent basis by any Scotiabank Europe business line is only permitted where the business line is able to demonstrate their choice is able to deliver best execution at least as well as any alternative execution venue.

## **2.8 Commission and Fee Structures**

### **2.8.1 Competing Execution Venues**

Scotiabank Europe is prohibited from structuring or charging commissions or fees in a way that discriminates unfairly between execution venues. For example, charging different commission or spreads for execution on different execution venues where the difference does not reflect actual differences in the cost to Scotiabank Europe of executing on those venues.

This does not mean all fees and commissions must be the same for all clients executing on a particular venue or across execution venues, rather the commission or fee charged to clients must be transparent and justified.

Scotiabank Europe must not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would infringe the requirements on conflicts of interest or inducements<sup>5</sup> is set out in EU/UK MiFID Articles 21 and 26 respectively.

## **2.9 Client Consent to the Policy and Standard**

Scotiabank Europe is required to obtain the prior consent of its clients to the Standard. Scotiabank Europe's clients consent to this Standard when agreeing to the BNSL Terms of Business or SIDAC Terms of Business, respectively.

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<sup>5</sup> UK MiFID Article 27(2) or EU MiFID Article 27(2)

### **3 CONFLICTS OF INTEREST**

#### **3.1.1 Overarching Requirement**

Scotiabank Europe is subject to the overarching requirement to identify and manage conflicts of interest. Where a conflict of interest cannot be managed adequately so as to prevent the risks of damage to the client's interest, it must be disclosed. This requirement applies to potential conflicts of interest that may arise between Scotiabank Europe and its clients as a result of its execution arrangements which could prevent it from satisfying its Best Execution Obligations.

#### **3.1.2 Internalisation and Use of Connected Parties**

Internalisation of Client Orders and the use of connected parties to execute Client Orders potentially give rise to a conflict of interest. Scotiabank Europe must ensure that it adequately manages this potential conflict of interest and provides adequate information to clients on execution arrangements that internalise orders or that utilise parties connected to Scotiabank Europe .

Scotiabank Europe uses a number of affiliates (connected parties) to execute Client Orders on its behalf and Scotiabank Europe business lines may execute Client Orders against internal positions where this achieves the best possible result for the client. Scotiabank Europe trades executed through internalisation or connected parties are subject to the same monitoring and testing arrangements as trades executed on external venues or through non-connected firms.

Business lines are responsible for demonstrating how internalisation and/or executing through a connected party achieves the best possible result for the client.

#### **3.1.3 Payment for Order Flow (“PFOF”)**

Payment for order flow is the historical practice whereby an investment firm that executes Client Orders receives commission from both the client as well as the counterparty that executed the trade.

The FCA and CBI prohibits PFOF as these arrangements may create a conflict of interest between the firm and its clients and as such these arrangements are unlikely to be compatible with the rules on conflicts of interest and inducements and risk compromising firms' compliance with best execution.

Scotiabank Europe is prohibited from entering into any payment for order flow arrangements.



## APPENDIX 1 – PRIORITY OF EXECUTION FACTORS BY BUSINESS LINE

As a generalised guide, the relative importance associated with execution factors across each business line is set out below. In order to determine the relative importance of the execution factors for any specific client order, the characteristics of the client, client order, financial instruments, execution venues and other relevant criteria must be considered. Where appropriate an equal weighting may be assigned to multiple execution factors.

Business Line		Asset Class		
		Equity and Equity Like	Bonds	OTC Derivatives
	Institutional equities	1. Price 2. Likelihood of Execution and settlement 3. Speed 4. Size 5. Nature of Order 6. Costs		
	Prime Services	1. Likelihood of Execution 2. Price 3. Size 4. Speed 5. Costs 6. All Other	1. Likelihood of Execution 2. Price 3. Size 4. Speed 5. Costs 6. All Other	1. Likelihood of Execution 2. Price 3. Size 4. Speed 5. Costs 6. All Other
	Fixed Income		1. Price 2. Likelihood 3. Size 4. Speed 5. All other	1. Price 2. Likelihood 3. Size 4. Speed 5. All other
	FX			1. Price 2. All other
	Commodities		1. Costs 2. Price 3. Size 4. Speed	1. Price 2. Speed 3. Size 4. Nature of order

## APPENDIX 2 – EXECUTION VENUES

Group	Venue Name	MIC Code	MiFID Registration Type	Cash Equity	Commodities	Fixed Income	FX
360T	360 TREASURY SYSTEMS AG	360T	MTF				✓
BGC & GFI	BGC BROKERS LP	BGCI	OTF			✓	
	GFI SECURITIES LIMITED	GFSO	OTF			✓	
BLOOMBERG	BLOOMBERG TRADING FACILITY B.V.	BTFE	MTF			✓	✓
	BLOOMBERG TRADING FACILITY LIMITED	BMTF	MTF			✓	✓
BROKERTEC	BROKERTEC EUROPE LIMITED	BTEE	MTF			✓	
	CME AMSTERDAM B.V.	BTAM	RM			✓	
CBOE	CBOE EUROPE	CCRM	RM	✓			
CIMD	CIMD S.V. S.A.	CIMD	OTF			✓	
EQUILEND	EQUILEND	EQIE	MTF	✓			
FXALL	FXALL	FXRQ	MTF				✓
ICAP	ICAP GLOBAL DERIVATIVES LIMITED	IGDL	MTF			✓	✓
	ICAP SECURITIES LIMITED	IOFB	OTF			✓	
	ICAP WCLK LIMITED	WCLK	MTF			✓	
	ISWAP EURO B.V.	ISWP	MTF			✓	
	TULLETT PREBON EUROPE LIMITED	TPEL	MTF, OTF			✓	
	TULLETT PREBON SECURITIES LIMITED	TPSL	MTF, OTF			✓	
FORTE	FORTE SECURITIES LTD OTF	FRTE	OTF			✓	
KYTE	Kyte Broking	KBLM	OTF			✓	
LSE	LONDON STOCK EXCHANGE	XLON	RM	✓			
MARKETAXESS	MARKETAXESS EUROPE LIMITED	RFQU	MTF			✓	
	MARKETAXESS NL B.V.	MANL	MTF			✓	
MAREX	MAREX S.A.	HPCV	OTF			✓	
MTS	EUROMTS LIMITED	XMTS	MTF			✓	
TRADEWEB	TRADEWEB EUROPE LIMITED	TREU	MTF			✓	
TRADITION	TRADITION UK LTD	FXOP	OTF			✓	