

## **RTS28 – Qualitative assessment KBC Bank NV – period 2020**

### 1. Introduction

KBC Bank has different business lines through which orders in financial instruments are given and processed. These consist of our branch network (Retail and Private Banking, Corporate Banking) (hereafter “**branch network**”), the Bolero platform (hereafter “**Bolero**”), Securities Services (hereafter “**SEC SERV**”) and the dealing room of KBC Bank (hereafter “**Dealing room**”).

Furthermore, KBC Bank has a hybrid model, meaning that for some financial instruments and/or clients, client orders are transmitted to a broker for execution (transmitter model), for other financial instruments and/or clients KBC Bank executes the client orders either as the client’s direct counterparty over the counter (OTC) or directly on a venue (executor model).

For all stock exchange listed instruments (i.e. shares, warrants, depository receipts, certificates, ...) (hereafter “**Listed instruments**”), the execution arrangements are the same regardless of the business line, meaning the orders are transmitted to KBC Securities NV (hereafter “**the Broker**”) for further execution.

For debt instruments, orders of the branch network clients are executed by KBC Bank itself. Orders of Bolero and SEC SERV clients are either executed by KBC Bank itself or transmitted to the Broker for execution.

Derivatives (foreign exchange, interest rate, commodities, ...) are offered to some branch network clients (companies, either Retail or Professional, some Private Banking individuals, who are Retail clients (limited to foreign exchange forwards)) and to institutional clients of the Dealing room (all Professional clients). For Retail clients, most transactions are executed by KBC Bank as direct counterparty itself. For Professional clients, transactions can be executed on a trading venue from time to time.

Hereinafter, all arrangements are assessed on the basis of the criteria mentioned in the Delegated Regulation (EU) 2017/576 of 8 June 2016.

### 2. Summary of the analysis of quality of execution

#### **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**

##### 1) Listed instruments

- KBC Bank NV follows the order execution policy of the Broker for all of its clients. A periodic evaluation is in place.

- Various factors are relevant for the execution of an order, such as price, transaction costs, speed of execution, likelihood of execution and settlement of the order, the size and characteristics of the order.

In order to determine the relative importance of these factors, the Broker takes into account the following criteria:

- the characteristics of the client including the categorization of the client;
- the characteristics of the client order;
- the characteristics of the financial instruments that are subject of that order;
- the characteristics of the execution venues to which that order can be directed.

Although in most instances price and costs will merit a high relative importance in obtaining the best possible result, there can be circumstances where other factors such as market impact, speed, likelihood of execution and settlement, size and nature of the order or any other consideration relevant to the execution of the order may be more important in determining the best possible execution result. For example where there is insufficient immediate available liquidity on the relevant execution venue to execute the order in full, where the client gives an order above standard market size or in illiquid instruments. In such case the Broker may thus reasonably determine that obtaining the best immediately available price may not be the best possible result for its client.

The Broker assesses the effectiveness of its order executing policy by making use of the tool of an independent vendor. More specifically, reports generated out of this tool allow the Broker to monitor the efficiency of the Best Execution smart order router of the third party brokers via an analysis of the effectiveness of the execution venues selection. As a backup, the Broker receives different reports from its third party brokers, which results the Broker could also compare to the ones generated by the tool of the independent vendor.

Permanent evaluation of the best execution policy including the third party brokers used – whereby all necessary stakeholders are involved - is guaranteed via :

- ✓ a monthly (operational) broker meeting
  - ✓ a quarterly review of the network of used third party brokers
- The Broker makes use of the concept of a volume market for order execution in some specific asset classes.

To this end, the Broker identifies in first instance which regulated market represents the highest volume of orders in that share. The higher the volume, the better the liquidity in that share. Liquidity leads to a higher likelihood of order execution and can contribute to the correct price formation of the financial instrument.

If the Broker sees that several regulated markets show an equivalent degree of liquidity, it will additionally take into account following elements:

- ✓ The costs of transactions on the corresponding markets.
- ✓ The currency in which the shares are being traded on the relevant markets, and the corresponding foreign exchange risk.

The Broker reviews the equivalence of the degree of liquidity of the volume market on a

yearly basis and ad hoc modifications can be considered. Impacted clients are informed in advance on any changes as a result of this exercise.

## 2) Debt instruments and derivatives

When executing or transmitting client orders, KBC Bank will take all sufficient steps to achieve the best possible result for clients taking into account the execution factors relevant to the order. The below execution factors are considered when determining the best result: price, costs, likelihood and speed of execution and size of the order.

In assessing the relative importance of the execution factors, KBC Bank will consider the following criteria:

- the characteristics of the client including the categorization of the client;
- the nature of the client's instructions;
- the characteristics of the transaction;
- the characteristics of the financial instrument;
- the characteristics of the execution venues to which the transaction can be directed.

The execution factors chosen may vary depending where:

- ✓ market liquidity is insufficient to fully execute the order;
- ✓ a client provides specific execution instructions, such as limit orders (if and when KBC Bank allows for these);
- ✓ market conditions indicate that in applying the execution factors in the order may result in a worse outcome for the client.

For Bolero clients and SEC SERV clients, some orders in debt instruments are executed by KBC Bank itself, others are transmitted for execution to the Broker. The same criteria are taken into account.

### **b) A description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to executed orders**

For the order execution service of receiving and transmitting client orders KBC Bank calls upon financial intermediaries, one of which is also part of the KBC-group, namely the Broker (broker for orders for all equity-like listed instruments, a.o. shares, options, warrants, ETF's, certificates,...).

KBC Bank is an active member on a limited number of execution venues. Only with one of them, MTS Associated Markets (for trading Belgian sovereign securities), KBC Bank has a link as a minority shareholder.

More information on the conflicts of interest policy of KBC Bank can be found on the website [www.kbc.be](http://www.kbc.be).

Following the logic of the volume market model and the need to fulfill best execution obligations, the Broker mainly passes via third party brokers and not via its own memberships, which are only used either in case the client gives a specific instruction or in case there is no alternative routing via multiple alternative execution venues available.

KBC Bank NV as well as the Broker are confident that this way of working is in the interest of their clients and that it is an advantage in achieving Best Execution when executing orders on their behalf.

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

KBC Bank has no such specific arrangements with the Broker. Further, KBC Bank participates in the standard arrangements offered by execution venues but such arrangements are available to all members and are not specific to KBC Bank.

**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**

KBC Bank NV is a direct member of Bloomberg venue, in order to fulfill its Best Execution obligations in order execution in Bonds in a more controlled way. KBC Bank performs an analysis of the liquidity on Bloomberg venue and executes orders on Bloomberg venue via the Smart Order Router in case of sufficient liquidity. Otherwise, KBC Bank looks itself for counterparties who provide the best price.

**e) An explanation on how order execution differs according to client categorization, where the firm treats categories of clients differently and where it may affect the order execution arrangements**

1) Listed instruments

Clients either follow the volume market model, whereby best execution is guaranteed by the Broker or are allowed to give specific instructions and route the transaction to the applicable main market within the volume market. Other specific instructions are not allowed.

2) Debt instruments

As described in KBC Bank's Best Execution Policy, no difference is made in treating orders from retail and professional clients. The total consideration is the primary execution factor when selecting intermediaries or execution venues. However, for orders for bonds from retail clients, KBC Bank uses Bloomberg's "Smart Order Router" system, in case there is sufficient liquidity, to ensure that the best possible result is obtained.

For orders from professional clients, KBC Bank executes on Bloomberg venue or OTC, in accordance with the arrangements made with the client.

3) Derivatives

In principle, there is no difference in treatment of clients for derivatives. However, some professional clients deal on specific venues (FXAll, 360T, ...) on which KBC Bank quotes prices for some instruments.

**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**

As described above, for retail client orders price and cost have the highest importance in achieving the best possible result.

Exceptions may be made in specific circumstances where other factors such as market impact, speed, likelihood of execution and settlement, size and nature of the order or any other consideration relevant to the execution of the order may be more important in determining the best possible execution result.

There is the possibility to route directed orders within the volume market in an automated way. KBC Bank executes these orders according to the clients' instructions.

**g) An explanation of how the investment firm has used any data or tools relating to the quality of execution**

1) Listed instruments

KBC Bank NV has no specific tools relating to the quality of execution for listed equity and equity like instruments.

The Broker actively uses the tool of an independent vendor to monitor closely the quality of execution of the selected third party brokers. The results of this monitoring play a predominant role in the overall assessment of the used counterparties.

KBC Bank NV has developed queries to verify the volume market at moment of registration of the order with the execution market.

2) Debt instruments and derivatives

In order to monitor the quality of execution, KBC Bank uses the tool of an independent vendor (BTCA from Bloomberg) as well as comparative data (Bloomberg, liquidity levels, price comparisons available on execution venues, ...). These tools and data are used on an ex-post basis to calibrate price models and to address deficiencies related to the quality of execution, i.e. related to the determination of fair prices.