

RTS28 – Qualitative assessment at KBC Bank NV – period 2021

1. Introduction

KBC Bank has various business lines through which orders in financial instruments are given and processed. These include our branch network (Retail and Private Banking, Corporate Banking) (henceforth '**branch network**'), the Bolero platform (henceforth '**Bolero**'), Securities Services (henceforth '**SEC SERV**') and the dealing room of KBC Bank (henceforth '**dealing room**').

Furthermore, KBC Bank has a hybrid model, which means that for some financial instruments and/or clients, client orders are transmitted to a broker for execution (transmitter model), while for other financial instruments and/or clients, KBC Bank executes the 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, certificates of deposit, certificates, etc., henceforth '**listed instruments**'), the execution arrangements are the same regardless of the business line, which means that the orders are transmitted to KBC Securities NV (henceforth '**the Broker**') for further execution.

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

Derivatives (foreign exchange, interest rate, commodities, etc.) 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. For Professional clients, transactions may be executed on a trading venue from time to time.

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

2. Summary of the quality of execution analysis

a) An explanation of the relative importance the broking firm attaches 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. There is a periodic update.

- 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.

To determine the relative importance of these factors, the Broker takes into account the following criteria:

- the characteristics of the client, including its categorisation
- the characteristics of the client order
- the characteristics of the financial instruments that are the subject of that order
- the characteristics of the execution venues to which that order can be directed

Although in most instances, the price and costs 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 in the relevant execution venue to execute the order in full, where the client gives an order exceeding the standard market size or in illiquid instruments. In such a case, the Broker may therefore reasonably decide 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 execution policy by making use of an independent vendor's tool. More specifically, reports generated by this tool enable the Broker to monitor the efficiency of the best execution smart order router of the third-party brokers by analysing the effectiveness of the execution venues selected. For backup purposes, the Broker receives various reports from its third-party brokers, the results of which the Broker can also use to compare with the ones generated by the independent vendor's tool.

Continuous evaluation of the best execution policy, including the third-party brokers used, involves all the key stakeholders and is ensured by means of:

- ✓ a monthly (operational) broker meeting
 - ✓ a quarterly review of the network of third-party brokers used
- 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 more liquid the 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 display an equivalent level of liquidity, it will additionally take into account the following elements:

- ✓ The transaction costs 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 volume market liquidity on a yearly basis and ad hoc modifications may 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 following execution factors are taken into consideration when determining the best possible 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 its categorisation
- 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 permitted by KBC Bank)
- ✓ 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

As regards receiving and transmitting client orders, KBC Bank uses the services of financial intermediaries, one of which is also a member of the KBC group, namely the Broker (for orders in all listed shares and similar instruments, including options, warrants, ETFs and certificates).

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

More information on KBC Bank's conflicts of interest policy is available at [Documentation – KBC Banking & Insurance](#).

Based on the logic of the volume market model and the need to fulfil best execution obligations, the Broker principally works via third-party brokers and not via its own venue memberships. This is only used if the customer gives a specific instruction or if there is no other routing available via various alternative execution venues.

KBC Bank NV and the Broker are confident that this approach is in the interest of their clients and that it serves as an advantage to 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 or non-monetary benefits received

KBC Bank has no such specific arrangements with the Broker. Furthermore, 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 in order to fulfil its best execution obligations for order execution in bonds in a more controlled way. KBC Bank performs an analysis of the liquidity available on Bloomberg and, in the event of sufficient liquidity, will execute orders on Bloomberg via the Smart Order Router. Otherwise, KBC Bank will take the initiative and look for counterparties offering the best price.

e) An explanation on 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

1) Listed instruments

Clients either follow the volume market model, where best execution is guaranteed by the Broker, or are allowed to give specific instructions to route the transactions to the most appropriate 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 the treatment of orders coming from either retail or professional clients. The total consideration is the most important execution factor to be taken into account when selecting intermediaries or execution venues. However, for bond orders from retail clients, KBC Bank uses Bloomberg's Smart Order Router if there is sufficient liquidity to ensure that the best possible result is obtained. For orders from professional clients, KBC Bank executes on Bloomberg or OTC, in accordance with the arrangements made with the client.

3) Derivatives

In principle, there is no difference in client treatment with regard to derivatives. However, some professional clients deal on specific venues (FXAll, 360T, etc.) on which KBC Bank quotes prices for certain 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 costs are the most important factors 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 obtaining 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) Explanation of how the broking firm has used 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 an independent vendor tool to closely monitor the quality of execution of its selected third-party brokers. The results of such monitoring play a predominant role in the overall assessment of the counterparties used.

KBC Bank NV has developed queries to verify the volume market at the time the order is registered on the execution market.

2) Debt instruments and derivatives

To monitor the quality of execution, KBC Bank uses an independent vendor tool as well as comparative data (Bloomberg, liquidity levels, price comparisons available on execution venues, etc.). 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.