

## **MIFID IIRTS28 Report: The Bank of New York Mellon SANV – Agency Securities Lending and Agency Cash Investment Securities Financing Transactions, Bonds and Money Market Instruments**

**For the Period: 1 January 2019 to 31 December 2019 inclusive (“2019 Calendar Year”)**

**Publication date: 30 June 2020**

### Executive Summary

#### Context

This report has been compiled as part of BNY Mellon’s reporting obligations under Article 27(10)(b) of Regulation (EU) NO 600/2014 known as MiFID II. Securities Finance at BNY Mellon incorporates the businesses of Agency Securities Lending and Agency Cash Investment.

#### Annual Report on Identity of Execution Venues and Quality of Execution for Agency Securities Lending

##### Top 5 execution Venues:

Class of Instrument:		Securities Financing Transactions	
Notification if <1 average trade per business day in the previous Year		N	
Top five Venues ranked in terms of trading volumes (descending order)		Proportion of volume traded as a % of total in that class	Proportion of orders executed as % of total in that class
EQUILEND EUROPE LIMITED	213800BUOJT8E71MBB36	54.63%	79.92%
J.P. Morgan Securities LLC	ZBUT11V806EZ RVTWT807	11.77%	0.89%
Barclays Capital Securities Ltd.	K9WDOH4D2PYBSLSOB484	6.35%	1.56%
Credit Suisse Securities Ltd.	DL6FFRRLF74S01HE2M14	3.53%	2.37%
Toronto Dominion Bank	PT3QB789TSUIDF371261	3.52%	0.12%

## Quality of Execution:

Full details of how BNY Mellon delivers best execution for our business can be found in our EMEA Order Handling and Execution Policy<sup>1</sup>.

In the context of our Agency Lending service, we take into account the following parameters when executing transactions:

- (a) Value of securities loan;
- (b) Term of transaction;
- (c) Relative stability of the portfolio/asset;
- (d) Transaction and custody charges;
- (e) Client credit quality and netting status;
- (f) Collateral criteria;
- (g) Jurisdiction of Client and/or Borrower; and
- (h) Securities lending parameters which may include limits on markets, securities, counterparties and duration.

The BNY Mellon Agency Lending trading desk also follows these general guidelines:

- (a) For each asset class, BNY Mellon identifies the key components needed for efficient Trade execution. These include:
  - a. Level of transparency;
  - b. Availability of trading levels and other market intelligence;
  - c. Sources of trading (primary vs. secondary);
  - d. Liquidity and trade size considerations;
  - e. Collateral supply; and
- (b) BNY Mellon establishes criteria for the selection of counterparties/Borrowers, including criteria for counterparty/Borrower selection in each asset class which may include reliability, integrity and trade settlement.
- (c) BNY Mellon identifies key data sources and other market intelligence tools to facilitate trading executions, including:
  - a. Utilising established sources for determining trading levels and gathering other market intelligence; and
  - b. Utilising and electronically retaining bid lists for sale transactions, whenever feasible.

The different execution factors will not usually be of equal importance. The priority of any one of these factors over the others will depend upon guidelines provided by our clients and market conditions. BNY Mellon will use its commercial judgment and experience in light of available market information to achieve the best balance across a range of sometimes conflicting factors. Several of the execution factors are interchangeable and can take precedence at various times.

However, any execution factor may take precedence over another execution factor, as determined in our discretion, in order to achieve the best possible outcome.

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<sup>1</sup> Available at [www.bnymellon.com/RID](http://www.bnymellon.com/RID)

In terms of our relationships with execution venues utilised by the service, BNY Mellon confirms there are no close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders.

In addition, BNY Mellon, confirms that there are no specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received.

BNY Mellon Securities Lending service adjusts its list of execution venues from time to time. There are various factors that lead to changes in the list of execution venues. These include but are not limited to:

- (a) Counterparty ratings/Credit worthiness
- (b) Demand profile
- (c) Jurisdiction
- (d) New Trade opportunities
- (e) Collateral parameters

With regards to execution of client orders, transactions are dealt with in accordance with our Agency Lending Order Handling and Allocation Policy. Transactions on behalf of a Client may be carried out in aggregation with other Clients provided that it is unlikely that the aggregation of such transactions will work to the overall disadvantage of any such Client whose transaction is to be aggregated.

The effect of aggregation may work to a client's disadvantage in relation to a particular transaction.

Where orders are aggregated this will occur in accordance with the relevant FCA Rules and records will be maintained as required by those Rules.

Irrespective of whether a transaction is executed on behalf of one client or multiple clients, the selection of the client(s) is driven by a fairness algorithm within the Global One system. Please note that BNYM Securities Finance does not act on behalf of retail clients.

BNY Mellon Agency Lending service continually monitors its performance for clients utilising market benchmark tools such as DataLend (<http://datalend.com/>), IHS Markit (<https://ihsmarkit.com/products/securities-finance.html>) in conjunction with BNY Mellon program data to ensure best execution across the lifecycle of the trade.

BNY Mellon Agency Lending service do not use the output of a consolidated tape provider established under Article 65 of Directive 2014/65/EU to assess execution performances.

## Annual Report on Identity of Execution Venues and Quality of Execution for Agency Cash Investment

Top 5 execution Venues:

Class of Instrument:		Securities Financing Transactions	
Notification if <1 average trade per business day in the previous Year		N	
Top five Venues ranked in terms of trading volumes (descending order)		Proportion of volume traded as a % of total in that class	Proportion of orders executed as % of total in that class
BNP PARIBAS PARIS (REPO)	R0MUWSFPU8MPRO8K5P83	14.67%	15.53%
CITIGROUP GLOBAL MARKETS, INC.	MBNUM2BPBDO7JBLYG310	12.37%	7.81%
RBC Dominion Securities, Inc.	549300QJX6CVVUXLE15	11.92%	8.73%
CANTOR FITZGERALD & CO.	5493004J7H4GCPG6OB62	11.82%	1.13%
DAIWA CAPITAL MARKETS AMERICA INC	M67H5PRC0NQKM73ZAS82	6.16%	7.80%

## Quality of Execution:

Full details of how BNY Mellon delivers best execution for our business can be found in BNY Mellon's EMEA Order Handling and Execution Policy<sup>2</sup>.

In the context of BNY Mellon's Agency Cash Investment services, we take into account the following main execution factors:

- (a) The investment of cash may be part of an overall service which has other aspects all of which have to be borne in mind when determining the appropriate way to invest and execute orders;
- (b) Preservation of principal is a key driver in the investment process. BNY Mellon's contractual obligation to return cash to its clients, or a client counterparty (for example, a reverse repurchase counterparty) (the "Client Counterparty") to satisfy a client's obligations under other related agreements where we act as your agent (a "Related Agreement") and making investment decisions that support this requirement, are of paramount importance;
- (c) We may be required to return cash to a client or a Client Counterparty at short notice and, if we hold insufficient cash to satisfy the obligation, we may need to promptly liquidate any Covered Instruments we hold for a client to satisfy this obligation (or part thereof), accordingly, the likelihood of being able to execute and settle transactions is a key factor in determining how to execute transactions; and
- (d) To the extent you have an obligation to make payments (a 'rebate') to a Client Counterparty pursuant to Related Agreements, price and costs are other key factors due to the aim of maximising the yield from cash investment and thus the spread over the rebate.

BNY Mellon's Agency Cash Investment trading desk also follows these general guidelines whilst seeking Best Execution on behalf of clients' accounts:

- (a) For each asset class, we identify the key components needed for efficient trade executions. These include:
  - a. Level of transparency;
  - b. Availability of trading levels and other market intelligence;
  - c. Sources of trading (primary vs. secondary);
  - d. Liquidity and trade size considerations; and
  - e. Reliability and availability of counterparty quotes.
- (b) We establish criteria for the selection of counterparties, including:
  - a. Criteria for counterparty selection in each asset class which may include reliability, integrity and trade settlement; and
  - b. Procedure for utilising counterparties not included on BNYM approved counterparty list.
- (c) We identify key data sources and other market intelligence tools to facilitate trade executions, including:
  - a. Utilising established sources for determining trading levels and gathering other market intelligence; and
  - b. Utilising and electronically retaining bid lists for sale transactions, whenever feasible.

The different execution factors will not usually be of equal importance. The priority of any one of these factors over the others will depend upon any specific instructions from our clients and market conditions. BNY Mellon will use its commercial judgment and experience in light of available market

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<sup>2</sup> Available at [www.bnymellon.com/RID](http://www.bnymellon.com/RID)

information to achieve the best balance across a range of sometimes conflicting factors. Several of the execution factors are interchangeable and can take precedence at various times.

The most significant execution factors for us which BNY Mellon will take into account to obtain Best Execution for transactions in Covered Instruments will usually be:

- (a) For listed MiFID II Instruments traded OTC:
  - a. Price;
  - b. Size;
  - c. Speed of execution;
  - d. Our program limits;
  - e. Portfolio composition;
  - f. Instrument type; and
  - g. Secondary market liquidity.
- (b) For Reverse Repos:
  - a. Interest Rate;
  - b. Size;
  - c. Speed of execution;
  - d. Our program limits;
  - e. Portfolio composition; and
  - f. Collateral type.

Unless specific instructions are received from you, we will endeavour to use the following order of priority, although any factor may take precedence over price in achieving the best possible result for our clients:

#### Price:

In relation to Agency Cash Investment services where Best Execution applies, subject to market conditions, price may be the first execution factor to be considered, but considering that best price may not always offer the best result for our clients, other execution factors may take priority. Other significant factors may include size of order and speed of execution (see below). We will use our access to available liquidity channels to achieve the best possible price for our clients. BNY Mellon will also consider issues such as valuation models, the risks incurred by us from entering into transactions and the capital requirements for us resulting from those transactions.

#### Size:

BNY Mellon will use our access to available liquidity channels to attempt to execute the full size of a client order, determined by the trading desk, when acting as agent. In certain situations where a market is volatile, illiquid or the order is of a large size, certainty of execution may be determined to be more important than price in obtaining the best possible outcome for a client.

#### Speed of execution:

BNY Mellon will endeavour to execute the transaction as soon as is practical given the prevailing market conditions when acting as agent. Transactions occur throughout the course of a single business day in line with market conditions, investment type and liquidity. We will adhere to a client's guidelines and endeavour to invest all available cash at the end of each business day.

#### Our program limits:

We have an overarching framework that our risk team places on the program that limits its risk exposure to:

- (a) Country;
- (b) Issuer; and

(c) Concentration limits.

Portfolio composition:

Portfolio composition depends on both our risk framework and your guidelines. These may include liquidity, concentration and maturity limits.

Instrument type:

We will select an approved and appropriate Covered Instrument for our clients in compliance with your guidelines.

Secondary market liquidity:

When we make an investment, we must have an understanding of the ability to be able to sell the security in the marketplace if required. This understanding must include an assessment of credit risk, interest rate risk, instrument type and structure, public or private issue and total issue size.

Interest Rate:

For Reverse Repos, there is no price, therefore the interest rate offered will often be the most important execution factor.

Collateral type:

Collateral type can be an important factor that drives the other factors listed above and it may be specific to client guidelines. Interest rates received and supply of collateral may also be taken into account.

In terms of our relationships with execution venues utilised by the service, BNY Mellon confirms there are no close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders.

In addition, BNY Mellon, confirms that there are no specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received.

Within the reportable period, due to MiFID II regulatory requirements, Bloomberg and Tradeweb Multilateral Trading Facilities (MTF) were added to the list of execution venues listed in the firm's execution policy.

The firm ensures that client categorisation and order execution arrangements are treated the same and in line with the BNY Mellon EMEA Order Handling and Execution Policy.

Orders are dealt through our Agency Cash Investment trading desk in accordance with our Agency Cash Investment order handling and allocation policies. Client orders may be carried out in aggregation with other client orders received by the relevant centralised trading desk provided it is unlikely that the aggregation of such orders and transactions will work to the overall disadvantage of any client whose order is to be aggregated. However, the effect of aggregation may work to a particular client's disadvantage in relation to a particular transaction.

Where orders are aggregated this will occur in accordance with the relevant FCA Rules and records will be maintained as required by those Rules. We will allocate the investments acquired among the relevant clients fairly and proportionately in accordance with our Agency Cash Investment Order Handling and Allocation Policy.

Please note that BNYM Securities Finance does not act on behalf of retail clients.

BNY Mellon Agency Cash Investment service continually monitors its performance for clients utilising market benchmarks to monitor execution quality achieved.

BNY Mellon Agency Lending service do not use the output of a consolidated tape provider established under Article 65 of Directive 2014/65/EU to assess execution performances.