



Systematic Internaliser Commercial Policy

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Introduction – the Systematic Internaliser regime

Article 4(1)(20) of Directive 2014/65/EU of the European Parliament And Of The Council on markets in financial instruments (herewith “**MIFID II**”), defines Systematic Internaliser (herewith “**SI**”) to be an investment firm which, on an:

- organised,
- frequent
- systematic and
- substantial

basis, deals on own account when executing client orders outside:

- a regulated market,
 - an MTF or
 - an OTF
- without operating a multilateral system;

Investment Firms are obliged on a quarterly basis, subject to a specific methodology defined in article 12 of Commission Delegated Regulation (EU) 2017/565¹ for shares and other equity class financial instruments and articles 13 to 16 of the same regulation for bonds and other non-equity financial instruments, and based on statistics issued by the European Securities and Markets Authority (herewith “**ESMA**”), to determine whether they are SI for any class of financial instruments referenced here above.

BrokerCreditService (Cyprus) Limited (herewith “**BCS Cy**”), has, ever since the provisions of articles 12 to 16 of Commission Delegated Regulation (EU) 2017/565 came into effect on the 1st of September 2018, been an SI for a number of bonds and in a limited number of cases, equities.

BCS Cy acts in SI capacity under the Market Identifier Code (ISO 10383, MIC code): BCSC

For those financial instruments which investment firms are, based on the process referenced here above, determined to be SI and for any other financial instruments an investment firm opts to be SI voluntarily, pre-trade transparency rules apply that entail the disclosure of quotes to their clients, and in certain cases to the public. Regulation (EU) No 600/2014 Of The European Parliament And Of The Council on markets in financial instruments (herewith “**MIFIR**”) sets the requirement for investment firms to establish a commercial policy and make the said policy available to their clients, defining certain SI related matters.

¹ COMMISSION DELEGATED REGULATION (EU) 2017/567 of 18 May 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to definitions, transparency, portfolio compression and supervisory measures on product intervention and positions

In compliance with the above requirements, BCS Cy has drafted the present “Systematic Internaliser Commercial Policy” (herewith “**Policy**”) that provides information about the following subjects:

- Financial Instruments for which BCS Cy is an SI;
- Analysis of the rules defining the obligation of SIs to disclose quotes to their clients and the public;
- Commercial rules under which BCS Cy is providing access to its quotes and any limitations thereto;
- Limitations rules for the quotes provided.

The Policy is posted on BCS Cy’s website at <http://bcscopyrus.com/policies>. It is reviewed at least on an annual basis, to ensure that it remains relevant, effective and up-to-date and it is updated whenever the need arises.

This Policy shall be read along and be construed in conjunction with BCS Cy’s Execution Policy that is posted on its website at <http://bcscopyrus.com/policies>.

Financial Instruments for which BCS Cy is an SI

The list of shares, equity-like financial instruments and non-equity instruments for which BCS Cy acts in the capacity of SI, for the running period until the next SI determination, is posted on the website of BCS Cy at <https://bcscopyrus.com/about/silist>.

In relation to bonds for which BCS Cy is SI, the list that is posted on BCS Cy’s website contains those bonds that are included in the ESMA statistics for the period in concern and for which the conditions for being an SI are satisfied. According to article 13 of Commission Delegated Regulation (EU) 2017/565, in the case of bonds, BCS Cy is considered to be an SI in respect of all bonds belonging to a class of bonds issued by the same entity or by any entity within the same group. In case BCS Cy opts-in under the SI regime for bonds, the obligation to act as SI for all bonds belonging to a class of bonds issued by the same entity or by any entity within the same group does not apply and BCS Cy can choose the individual bonds for which it opts-in and for which it should comply with the related obligations.

It should be noted that BCS Cy acts in an SI capacity only for financial instruments Traded On a Trading Venue (herewith “**TOTVs**”). It should also be noted that due to the non announcement, on the part of ESMA, of statistics on financial instruments that are not TOTV and the inherent difficulties that this entails, BCS Cy does not carry out an exercise for determining whether it is SI for non-TOTV financial instruments, even though this does not preclude the possibility of BCS Cy opting to act as SI for non-TOTV financial instruments on a voluntary base.

Analysis of the rules defining the obligation of SIs to disclose quotes to their clients and the public

Disclosure of quotes

Equities and equity-like financial instruments

Shares and equity-like financial instruments for which there is a liquid market

In the case of shares and other equity-like financial instruments (depository receipts, ETFs, certificates and other similar financial instruments traded on a trading venue) for which investment firms are SI, and for which there is a liquid market, as per the criteria determined by the applicable relevant legislation, investment firms shall make public firm quotes in respect of those financial instruments.

By public, it is meant that the aforesaid quotes should be made available to the public on a non-discriminatory basis. At this point it should be clarified that the obligation to make public quotes does not raise any obligation on BCS Cy to deal with any investor who is not a client of BCS Cy, notwithstanding the fact that the said investor may have access to the said quotes.

Given the factors stated here above, the approach of BCS Cy for complying with its obligations for those shares and equity-like financial instruments for which it is SI is the following:

1. BCS Cy shall be publishing quotes through proprietary arrangements, more specifically, by posting such quotes on its website.
2. Each quote shall include a firm bid and offer price or prices for a size or sizes which could be up to standard market size (herewith “**SMS**”) for that particular financial instrument.
3. The aforesaid quotes will be made available on a regular and continuous basis during normal trading hours, unless exceptional market conditions apply, in which case, BCS Cy shall be withdrawing its quotes, where applicable, and/or shall not proceed to the disclosure of any quotes, until the exceptional market conditions that pertain for that particular financial instrument(s) no longer pertain. A description of such [exceptional market conditions](#) is provided in the next sub-section. BCS Cy may remove or replace quotes placed in error.

For the purposes of this Policy, “**normal trading hours**” shall be the period of time, during working days, as the term is defined in BCS Cy’s General Terms, between 09:00 to 18:00 Cyprus time (UTC + 2 hours).

BCS Cy may opt to deviate from the normal trading hours and publish quotes during the “**market trading hours**” of the trading venue where the financial instrument was first admitted to trading or the most relevant market in terms of liquidity. In such cases, the period of time during which quotes will be published will be announced and prominently posted on the list of Financial Instruments for which BCS Cy is SI, which is posted on its website.

4. BCS Cy shall be defining the size of each quote, with the minimum quote size being the equivalent of 10 % of the SMS and the maximum being the SMS. Any quotes published by BCS Cy shall not apply for sizes above SMS.
5. BCS Cy shall execute the orders receive from its clients in relation to any of the shares and equity-like financial instruments at the quoted prices at the time of reception of the order. In justified cases, and at the absolute discretion of BCS Cy, orders may be executed at a better price provided that the price falls within a public range close to market conditions.
6. In the case of orders received from professional clients, BCS Cy may execute orders at prices different than the ones quoted, in respect of:
 - (a) transactions where execution in several securities is part of one transaction or
 - (b) orders that are subject to conditions other than the current market price.

Exceptional market conditions

For the purposes of point 3 here above, exceptional market conditions are considered to exist where to impose on a SI an obligation to provide firm quotes to its clients would be contrary to prudent risk management and, in particular, where:

- (a) the trading venue where the financial instrument was first admitted to trading or the most relevant market in terms of liquidity halts trading for that financial instrument
- (b) in the case of an exchange traded fund (herewith “**ETF**”), a reliable market price is not available for a significant number of instruments underlying the ETF or the index;
- (c) a competent authority prohibits short sales in that financial instrument
- (d) in duly justified cases, when any other factor or incident does not allow BCS Cy to prudently manage its risks by disclosing quotes

If any of the above conditions pertain, BCS Cy shall be notifying affected parties by placing an announcement on its website.

Shares and equity-like financial instruments for which there is no liquid market

Where there is not a liquid market for shares and equity-like instruments for which BCS Cy is acting as SI, BCS Cy shall disclose quotes only to its clients and only upon request, that is, the obligation to display its quotes to the public does not hold, neither does the obligation to disclose quotes on a continuous basis.

The rest of the obligations that apply for shares and equity-like financial instruments for which there is a liquid market apply proportionately for the cases where there is no liquid market.

Non-equity financial instruments

Bonds for which there is a liquid market

In relation to non-equity financial instruments, at the time of drafting the Policy, ESMA published statistics only for bonds whereas the publication of statistics for the remaining categories of financial instruments collectively comprising the non-equity class of financial instruments (structured finance products, emission allowances and derivatives) has been postponed until the end of 2020. Based on this, for the remaining of this section, we shall refer to the obligations that relate to bonds.

Article 18(1) of MiFIR sets the obligation for investment firms to make public firm quotes in respect of non-equity financial instruments traded on a trading venue for which they are SI and for which there is a liquid market when the following conditions are fulfilled:

- (a) they are prompted for a quote by a client of the SI;
- (b) they agree to provide a quote.

BCS Cy is complying with the said obligations in the following manner:

1. BCS Cy, in case it receives a request for a quote (“**RFQ**”) by any of its clients and provided that it agrees to provide a quote, it shall be publishing such quotes through proprietary arrangements, specifically, by posting such quotes on its website.
2. BCS Cy may refuse ex ante to provide quotes in certain bonds for which it is SI. Should BCS Cy decide to adopt such an approach, the fact shall be noted in the list of financial instruments for which BCS Cy is an SI, that is posted on its website.
3. The quotes provided shall be for a size at or below the size specific to the financial instrument (“**SSTI**”). The SSTI is determined by BCS Cy’s risk management department and represents the size specific to the financial instrument that would expose BCS Cy to undue risk.
4. BCS Cy shall not make quotes for bonds that fall below the threshold of liquidity determined by the relevant National Competent Authorities of the affected bond
5. BCS Cy may update its quotes at any time and it may withdraw its quotes under the [exceptional market conditions](#) referenced hereabove.
6. BCS Cy shall not be making quotes for any bond belonging to a class of bonds issued by the issuer of a bond for which BCS Cy has crossed the SI thresholds or by any entity within the same group if the said bonds is under any of the sanctions programs observed by BCS Cy, including CySEC, EU, OFAC and UN sanctions programs.
7. The quote provided to a client following an RFQ by the same can be executed with any other clients where the requesting client has decided not to trade against it (or to execute only part of it).

Bonds for which there is no liquid market

In relation to non-equity financial products traded on a trading venue for which there is not a liquid market, SIs shall disclose quotes to their clients on request if they agree to provide a quote, without having the obligation to make such quotes public.

The obligations that apply for non-equity financial instruments for which there is a liquid market, apart from the obligation to make the quotes public, apply also for non-equity instruments for which there is no liquid market.

Access to quotes

Article 17 of MiFIR provides that SIs are allowed to decide:

- on the basis of their commercial policy and
- in an objective non-discriminatory way

the clients to whom they give access to their quotes.

General approach

The approach of BCS Cy in complying with the above referenced obligations is as follows:

1. In the previous section, we have referred to the obligation of investment firms, for those shares and equity like instruments for which they are SI and which have a liquid market, to make their quotes available to the public. In case BCS Cy is SI for any instruments fitting the said description, it shall be posting its quotes on its website, without any access controls, thus making them available to the general public. Access to the quotes will be free of any charge.
2. In the case of shares and equity-like instruments for which there is no liquid market, for which the obligation is to disclose quotes to its clients upon request, BCS Cy discloses quotes on a password protected section of its website, so that access is controlled and granted only to those clients who request access and who are not excluded from access based on any of the limitations to access referenced here below. The right of access of such clients may be revoked at any time should the status of the client change to the effect that the client is subject to the limitations.
3. Access to clients who are not subject to any limitation, shall be provided free of any charge for all clients alike, irrespective of the categorization of each client or the service plan it has enrolled to.

Limitations to access

BCS Cy may prevent certain of its clients from access to the quotes if one or more of the following conditions apply:

1. In the case all of the following conditions are satisfied:
 - (i) The client is a retail or elective professional client
 - (ii) The share or equity-like instrument for which BCS Cy is SI has certain features that make it classify as a complex financial instrument
 - (iii) The appropriateness test or the re-categorisation test as the case may be, the client has been subjected to has revealed that the client does not possess the requisite knowledge, experience and expertise to invest in such products and following the warning issued by BCS Cy to that effect, the client has decided not to invest in such products.
2. The client's account has, for any reason, been suspended or blocked.
3. The Risk Management Department of BCS Cy advises against granting access to the said client, on the ground of:
 - (i) The client's credit status
 - (ii) The counterparty risk faced by BCS Cy when dealing with the said client
 - (iii) Where applicable, the settlement arrangements of the client exposes BCS Cy to undue risk.
4. In the case when conflicts of interest exist, as a result of the client being an SI or market maker for any of the financial instruments for which BCS Cy is SI or the operator of a Trading Venue (a regulated market, an MTF or an OTF), where any of the said financial instruments are traded.

Limitations to trading

BCS Cy may restrict to a certain extent, on the advice of its Risk Management Department and in a non-discriminatory way, the number and / or value of transactions on certain financial instruments for which it is SI on the following grounds.

1. In order to limit the risk of exposure to multiple transactions from the same client, BCS Cy may limit the number of transactions from the same client which it undertakes to enter at the published conditions.
2. BCS Cy may limit the total number of transactions from different clients at the same time in cases where the number and/or volume of orders sought by clients considerably exceeds the limit, set by BCS Cy's Risk Management Department, in terms of the number or volume of those orders that BCS Cy can execute without exposing itself to undue risk. Where the set limit is reached for any particular financial instrument for which BCS Cy is SI, the same shall announce the fact on its website, suspend the publication of quotes for the affected financial instruments and refrain from concluding any transactions with any clients on the affected financial instruments.