

Pursuant to provisions of Article 84 and 91 of the Capital Market Act („Official Gazette“ no. 88/08, 146/08) the Croatian Financial Services Supervisory Agency issued at its session on 07. January 2008

ORDINANCE ON OBLIGATIONS OF AN INVESTMENT FIRM REGARDING BEST EXECUTION OF CLIENT ORDERS

I. COMMON PROVISIONS

Article 1

This Ordinance shall stipulate:

1. Conditions for defining relative importance of various factors which shall be taken into account when determining the best possible result for the client, according to Article 85 of the Act.
2. Factors which an investment firm may take into account while reviewing its measures as referred to in Article 85, paragraph 3 and policies referred to in Article 87 of the Act as well as circumstances under which they should be changed,
3. Factors for defining trading venues which enable the investment firm to coherently obtain the best possible results when executing client orders.
4. Type and scope of data that an investment firm is obliged to provide for its clients, according to Article 87, paragraph 5 of the Act,
5. Procedures and mechanisms which enable prompt and correct execution of client orders and the situations in which or types of transaction for which investment firm may reasonably deviate from prompt execution so as to obtain more favorable terms for clients.
6. Procedures through which an investment firm can be deemed to have met its legal obligation concerning disclosure of limit order of its client.

Article 2

Terms used in this Ordinance have the following meaning:

1. **The Agency** is Croatian Financial Services Supervisory Agency;
2. **The Act is the Capital Markets Act** („Official Gazette“ no. 88/08, 146/08);

II. BEST EXECUTION OF ORDERS

Best execution criteria

Article 3

(1) When executing client orders, an investment firm is obliged to take into account the following criteria while determining relevant factors as referred to in Article 85 of the Act, such as:

1. client's characteristics, including client classification as retail or professional investor,

2. Characteristics of a retail client,
3. Characteristics of a financial instrument the order is referring to,
4. Characteristics of a trading venue the order can be routed to for execution.

(2) An investment firm shall fulfil the obligation proscribed by Article 85, paragraph 1 of the Act, in so far as it follows client's particular instructions regarding order or particular nature of an order, when executing order or particular nature of an order.

(3) When there is more than one trading venue where an order can be executed, for the purpose of determining and comparing result for the client achieved by executing an order at every trading venue stipulated in investment firm's policy of order execution and where such order can be executed, an investment firm, while estimating, must take into consideration its own commissions and costs related to execution of orders at every trading venue which fulfils the criteria for order execution.

(4) An investment firm may not structure or charge its commissions in a manner which could lead to unjustified discrimination of changing the execution venue.

Procedure obligations of an investment firm while providing investment service of portfolio management as well as receiving and transmitting an order in the best interest of the client

Article 4

(1) An Investment Firm which transmits an order to buy or sell financial instruments to another person for execution, arising from the decision on dealing on behalf of a client, it is obliged to comply with provisions of Article 54, paragraph 1 of the Act, referring to acting in accordance to the best interest of the client.

(2) When an investment firm transmits orders to another person for execution while providing investment service of receiving and transmitting order, it is obliged to comply with provisions of Article 54, paragraph 1 of the Act, referring to acting in accordance to the best interest of the client.

(3) For the purpose of complying with provisions referred to in paragraph 1 and 2 of this Article, an investment firm is obliged to take measures set out in paragraphs 4 to 8 of this Article.

(4) An investment firm is obliged to take all reasonable steps to achieve the best result for its client, taking into account the elements relevant for order execution, set out in Article 85, paragraph 1 and 2 of the Act. The relative importance of elements is determined by referring to criteria set out in Article 3, paragraph 1 of this Article, and for retail investors, referring to requirements set out in Article 3, paragraph 3 of this Ordinance.

(5) An investment firm meets its obligations as referred to in paragraphs 1 or 2 of this Article and is not obliged to take special measures set out in paragraph 4 of this Article, so far as it complies with the particular instructions of the client when giving or transmitting an order to third person for execution, in accordance with paragraph 1 or 2 of this Article.

(6) An investment firm is obliged to establish and implement an order execution policy to allow them to obtain the best possible result for the client, in a manner as referred to in paragraph 4 of this Article. Within the order execution policy, an investment firm shall determine subjects to which it gives or transmits orders for execution, in respect of each class of financial instrument. The said subjects must have execution procedures which enable the investment firm to comply with obligations proscribed by this

Article when giving or transmitting order for execution. An investment firm is obliged to provide its clients with relevant information on the policy as set out in this paragraph.

(7) An investment firm is obliged to monitor the effectiveness of its policy as referred to in paragraph 6 of this Article; especially the quality of execution of subjects determined by the said policy and, when it is applicable, correct any deficiency.

(8) An investment firm is obliged to assess its policy as referred to in paragraph 6 of this Article, at least once a year. Assessment of the policy shall be conducted in case of any material change which could influence an investment firm's possibility regarding obligation of permanently providing for the best result for the client.

(9) Provisions of paragraph 1 to 8 of this Article shall not apply when an investment firm, providing the investment service of individual portfolio management and/or receiving and transmitting orders, also executes received orders or decisions on dealing on behalf of its portfolio client. In such case provisions of Articles 85 to 90 of the Act shall be applied.

Order Execution Policy

Article 5

(1) An investment firm is obliged to assess its business policy of order execution, established pursuant to Article 87 of the Act, at least one a year, as well as measures and procedures of order execution as referred to in Article 85 of the Act.

(2) Assessment of order execution policy, as referred to in paragraph 1 of this Article shall be conducted in case of any material change influencing an investment firm's possibility of permanently providing for the best results for its clients, using trading venues included in the order execution policy of an Investment Firm.

(3) An investment firm is obliged to provide retail investors with the following information on its order execution policy, in timely manner, before the service is provided:

1. Assessment of relative importance which an investment firm assigns, in accordance with the criteria as referred to in Article 3, paragraph 1 of this Ordinance, to factors set out in Article 85, paragraph 1 of the Act, or the procedure that an investment firm use for assessing the relative importance of said factors.

2. List of execution venues which the investment firm has classified as significant regarding meeting its obligations with the purpose of taking all reasonable steps for permanently obtaining the best possible result for the client while executing orders.

3. clear and propound notice that every particular instruction of the client could impede an investment firm while taking steps which it stipulates and applies according to execution policy, with the purpose of obtaining the best possible result in execution of that specific order, due to factors included in mentioned instructions.

(4) Information as referred to in paragraph 3 of this Article shall be submitted on a durable medium or through the internet site if the following conditions are fulfilled:

1. a client has provided the investment firm with a legitimate e-mail account;
2. a client has chosen such way of submission of information.

3. a client has been notified by an e-mail about the internet site and the page on the internet site where the information is available,
4. Information is regularly updated,
5. Information is constantly available as long as it can be useful for clients

III. CLIENT ORDER HANDLING

Article 6

Joining of orders and allocation

(1) An investment firm can execute the accepted client order or transaction on its own account by joining such order to another received client order, only when the following conditions are met:

1. an investment firm shall establish and effectively apply the order allocation policy, stipulated in detail the fair allocation and joining of orders and transactions, including description of the order quantity and price determining allocation and dealing with partially executing orders.

2. it is not likely that joining of orders and transactions shall be mischievous to interests of any client whose order has been joined, in overall perspective,

3. an investment firm shall forewarn each client whose orders are being joined, of the result of joining orders which could be mischievous to the clients` interests regarding particular order.

(2) when an investment firm joins one ore more accepted client orders, and the joined order is partially executed, it is obliged to allocate respective transactions in accordance with its order allocation policy.

Article 7

Joining and allocation of transactions on own account

(1) When an investment firm joins transactions on its own account to one ore more accepted client orders, it is obliged to allocate respective transactions in a manner not mischievous for the client.

(2) When an investment firm joins transactions on its own account to accepted client order, and the joined order is being partially executed, it is obliged to allocate respective transaction in a manner to give the priority to the client order against investment firm.

(3) Exclusively, if an investment firm can prove that the accepted client order could be non executable under such favourable terms without joining it with transaction on its own account, or could not be executed at all, an investment firm can allocate transaction on its own account proportionally, in compliance with its order allocation policy as referred to in Article 6 of this Ordinance.

(4) An investment firm is obliged to establish, within its order allocation policy as referred to in Article 6 of this Ordinance, procedures for preventing reallocation of transaction on its own account which are executed in combination with accepted client orders, in a manner not mischievous for the client.

Article 8

Disclosure of client limit order

(1) An investment firm shall be considered to meet the obligation as referred to in Article 83 of the Act regarding disclosure of the client limit order which is not immediately executable if it:

1. discloses such order to a regulated market or MTF that operates an order book trading system, or
2. ensures that the order is made public and can be easily executed as soon as market conditions allow,

(2) Arrangements for making information public, as referred to in paragraph 1, point 2 of this Article, shall satisfy the following conditions:

1. it must include all reasonable steps necessary to ensure that the information to be published is reliable, monitored continuously for errors, and corrected as soon as errors are detected,
2. it must facilitate the consolidation of the data with similar data from other sources,
3. it must make the information available to the public on a non-discriminatory commercial basis at a reasonable cost.

IV. FINAL PROVISIONS

Article 9

This Ordinance shall enter into force on the eighth day after the day of its publication in the Official Gazette.

Class: 011-02/09-04/9
Reg.no: 326-01-09-1
Zagreb, 07 January 2009

President of the Management Board
Ante Samodol