
TO : **Cyprus Investment Firms**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **25 October 2019**

CIRCULAR No : **C343**

SUBJECT : **Thematic review of best execution obligations of Cyprus Investment Firms**

The Cyprus Securities and Exchange Commission ('CySEC') has carried out a review of the arrangements put in place by Cyprus Investment Firms (the 'CIFs') to ensure compliance with the provisions of article 28 of the Investment Services and Activities and Regulated Markets Law ('the Law'), with regards to the obligations to execute orders on terms most favourable to the clients, known as best execution ('the Review').

Although CIFs have taken steps to comply with the best execution obligations, the Review uncovered areas of concern that CySEC wishes to highlight to all CIFs, despite the fact that the Review covered only a sample of CIFs. This Circular sets out CySEC's observations and requests all CIFs to consider whether they comply with their best execution obligations and where appropriate, take corrective measures.

A. Relevant Regulatory Framework

The applicable regulatory framework with regards to the Review is annexed to this document.

B. Objective of the Review – Sample reviewed

1. The objective of the Review was to assess the degree of CIFs' compliance with their best execution obligations.
2. Characteristics of the sample reviewed:
 - i. 11 CIFs were reviewed.

- ii. They were mainly offering CFDs, using two different business models i.e. CIFs dealing on own account¹ and CIFs executing orders on behalf of clients².
- iii. The selection of CIFs was made based on their size and risk.
- iv. The Review was carried out through on-site visits at the CIFs' premises; additional information requests followed.

C. OBSERVATIONS IDENTIFIED

Establishment of an order execution policy/arrangements

3. All CIFs established an order execution policy and arrangements for complying with the obligation to execute orders on terms most favourable to the client.

Implementation of the order execution policy/arrangements

4. Although, CIFs established an order execution policy and arrangements, in practice, CySEC observed weaknesses in its respective implementation.
5. With regards to the selection process for execution venues, the following have been observed:
 - i. The established selection process for execution venues was not followed. For example, in practice the assessment of the different execution factors stated in the CIFs' execution policy were not taken into account. In some instances, there were no and/or insufficient supporting records to substantiate the selection of the execution venue. This was more evident for CIFs that had in place arrangements involving connected parties.
 - ii. Some CIFs that chose to be the sole execution venue for all client orders were unable to demonstrate in their analysis, where indeed performed, that they excel other suitable execution venues in delivering a better result for clients when executing their orders. In most cases, their analysis did not benefit from the new metrics available under RTS 27, as well as other relevant sources of data (e.g. metrics such as volume, frequency of trading, resilience or execution price related information).
 - iii. In some cases, there was little evidence in the CIFs' analysis to support that clients enjoyed lower costs (e.g. transaction fees, spreads and various other financing costs and charges that may be applied) when the CIF was acting as the single execution venue.
 - iv. Where CIFs established execution arrangements with a single execution venue that was a connected party, it was observed that in certain cases, the

¹ This includes:

i. Firms dealing on own account as market maker and acting as the main execution venue (frequently as the sole execution venue) for their retail clients' orders and

ii. Firms dealing on own account and executing orders on behalf of clients that hedge their positions with clients on a back-to-back basis with other execution venues (often using straight-through processing or STP technology). In this latter example, the firm does not usually take any market risk as a result of its clients' transactions and the other execution venues selected by the firm for its hedging activity are used to determine the execution price for the firm's clients' orders.

² This includes firms that execute orders on behalf of clients with third party execution venues. In this case, the other execution venues selected by the firm are used to determine the execution price for the firm's clients' orders.

agreements between the CIF and the connected party - which resided in a non-EEA jurisdiction - included disproportionate remuneration clauses to the benefit of the CIF. Moreover, there was no evidence to support that this type of arrangement resulted to the benefit of the clients or to the reduction of the costs incurred by them.

The abovementioned observations have been also identified to CIFs that are using a range of execution venues for executing client orders.

6. When CySEC assessed the CIFs' use of technology or software to evaluate the settings and parameters used by the CIFs (i.e. bridges and plug-ins³), the following unacceptable practices were identified:
 - i. Applying a longer latency than is necessary before an order is executed to similar client orders (i.e. 4 seconds);
 - ii. Different treatment to different groups of clients based on the clients' trading profitability, as well as based on the CIF's hedging arrangements. Specifically one CIF directed the order flow of its 'profitable' clients to a liquidity provider, which seemed to execute client orders with less favorable terms to the clients (i.e. asymmetric slippage⁴ and less likelihood of execution);
 - iii. Asymmetric limitations to the maximum positive and negative 'gapping'⁵ (in favour of the client and to client's disadvantage), above which client orders were rejected or re-quoted;
 - iv. Restrictions on certain type of orders (i.e. 2 minute minimum time to close a winning position).
7. According to the reports received, two CIFs seemed to benefit from asymmetric price slippage, which increased also the costs incurred by clients.

Information on order execution policy provided to clients

8. CySEC observed that in some instances the information provided by CIFs to their clients in relation to the order execution policy was not appropriate and was often high-level and generic. Specifically, this information:
 - i. Used wording clearly written before the introduction of MiFID II which did not reflect their current best execution obligations;
 - ii. Merely copied out the relevant rules. This was more evident on the application of the execution factors, as it was not clearly explained how they would be applied in practice;
 - iii. Did not disclose the factors on which execution venue(s) was/were selected, including qualitative factors and relative importance;

³ Technology or software which process client orders using pre-defined and/or configurable rules and settings that allow the CIF to define under which conditions a client order can be confirmed.

⁴ Asymmetric slippage involves a firm passing on negative price movements to the client but seeking to capture positive slippage itself by only giving the client the original quoted price where a positive movement has occurred in the intervening time between a quote being provided and the execution of the order. Slippage naturally occurs due to the time lag arising between a firm providing a quote to its client, which may be based on prices streamed from a venue with whom the firm will execute client orders or execute a hedge trade on a back-to-back basis at the moment at which the client confirms they wish to execute the order, and the moment at which the firm completes the trade by executing the client's order. During this time lag, the price may have moved away from the original quoted price.

⁵ 'Gapping' occurs when there is a sudden movement in the price of the underlying during periods of significant market volatility

- iv. Included conflicting information as to whether they were acting as the sole execution venue (e.g. when CIF's offered an ECN account type);
- v. Stated that a range of execution venues may be used when executing client orders, without specifying them;
- vi. Did not explain how they analyze and monitor execution quality in practice to verify best possible results obtained;
- vii. Failed to disclose the remuneration received from the single execution venue selected which was a connected party;
- viii. Did not provide a link to the RTS 27 and RTS 28 reports for each execution venue used;
- ix. Failed to include a statement that they should answer clearly and within a reasonable time to clients about their policies or arrangements and how they are reviewed;
- x. Did not explicitly mention what constitutes a 'material change' to their order execution arrangements or execution policy;
- xi. Used broad clauses to limit the CIF's best execution obligation. Specifically, one CIF offering execution in a market outside normal trading hours, stated that its quotes will reflect '*what the Company thinks to be the current Bid and Ask of the relevant underlying asset*', without specifying how it constructs a price and executes orders in that instance. Other similar examples of clauses that have been also identified are the following:
 - a. '*...to decline an order of any type and/or to offer the client a new price*' without explicitly specifying the particular circumstances under which this might happen;
 - b. '*...not to execute an order or change the opening and/or closing price of a particular order*' in the case of '*incorrect reflection on the quotes feed*' without clearly defining the term 'incorrect';
 - c. to manually price and/or manually execute client orders depending on factors such as '*unusual market conditions*' or '*the size and nature of the client order*' without explicitly explaining the particular factors.

Monitoring the effectiveness of the order execution policy/arrangements

- 9. In general, the review showed that there was lack of effective monitoring to identify best execution failures. Monitoring programs and procedures were not robust as assessments relied on inadequate sample size of transactions and sometimes were not based on carefully selected benchmarks and tolerances for compliance. Monitoring was mostly performed by members of the dealing room and their findings lacked management oversight apart from not being challenged by the compliance function.
- 10. Regarding the monitoring of the execution quality of the venues and the price sources used, the following have been observed:
 - i. Dealing room monitoring encompassed real-time, change-of-shift, end-of-day and periodic reporting. However, there was little evidence to support effective real-time monitoring by many CIFs as there were limited examples of documented records including price registers and/or alerts to identify and rectify situations where the CIF was not delivering best execution. Real time

monitoring for many CIFs was heavily reliant on the judgement of their executing brokers with little supervisory oversight.

- ii. A few CIFs did not compare their order execution against any specific benchmarks and data. Where such benchmarks and tolerance levels were set, some CIFs were not in a position to explain why they considered them to be adequate and how they were derived (e.g. speed of execution less than one second, successful execution rate not less than 96%).
- iii. The monitoring program of some CIFs did not reflect all the execution factors and the information that the CIFs are required to assess. For example, some CIFs did not systematically compare the CIFs quoted and executed price against the price of independent price sources or other venues (e.g. average market price), in order to ensure the fairness of the price proposed to clients and to perform self-assessment of their own execution quality. Additionally, benchmarks and statistics such as the average effective spread; frequency of quote delays; rejections and price re-quotes; as well as metrics on order latency, did not form an integral part and/or focal point of their monitoring. While most CIFs were reviewing statistics related to the symmetry of any observed slippages (positive vs negative), this monitoring in many cases did not include slippage metrics taking into account the number of orders, the volume of orders (i.e. in pips⁶) and the value of orders for all order types (e.g. market orders including stop loss and take profit orders, other limit orders and stop out orders due to the 50% margin close out rule).
- iv. Only a limited number of CIFs were able to demonstrate that the information published as per RTS 27 and RTS 28 was taken into account for their monitoring.
- v. Although it was observed that a few CIFs deployed purpose build software to run their change-of-shift and/or end-of-day monitoring reports, many CIFs relied on manual checks and spread sheet reports which lacked quality. For example, one CIF used excel sheets to perform price slippage calculations without deriving any conclusions and another CIF used an incorrect methodology for calculating price slippage (i.e. did not perform the appropriate currency conversions in order to take into account the different pip value of each position for each asset class e.g. between different currency pairs eur/usd and eur/pln).
- vi. Several CIFs were using a very small and/or inadequate sample size for their monitoring in comparison to the scale of the CIF's activities and business model. Specifically, one CIF used the log files of its trading platform (i.e. the Journal report of MT4) to monitor 4 transactions per quarter and another CIF monitored one transaction per day. A different CIF executing transactions by

⁶ A pip, short for point in percentage, is a very small measure of change in a [currency pair](#) in the [forex](#) market. It can be measured in terms of the quote or in terms of the underlying currency. A [pip](#) is a standardized unit and is the smallest amount by which a currency quote can change. It is usually \$0.0001 for U.S.-dollar related currency pairs, which is more commonly referred to as 1/100th of 1%, or one [basis point](#). This standardized size helps to protect investors from huge losses. For example, if a pip was 10 basis points, a one-pip change would cause greater volatility in currency values. (Source: Investopedia)

straight through processing (STP), conducted manual price slippage checks on a sample of 75 random trades per month.

Furthermore, the use of appropriate methodologies for sampling by CIFs was not evident. In one case it was observed that a CIF based its monitoring on a sample of client orders selected by its sole hedging venue which was a connected party.

- vii. Although some CIFs included in their monitoring programs an analysis to support their selection of execution venues, some CIFs continued to rely on their current venue selection without proper evidence to justify their decision. Certain scoring systems developed for their monitoring, were inadequate in terms of the objectivity of the criteria considered. They were also not considering market conditions and regulatory changes. Additionally, the score allocation per criterion considered was inappropriate (e.g. very high score if the liquidity provider belonged to the same group with no negative and/or low negative score when the liquidity provider was not regulated in an EEA jurisdiction).
- viii. Several CIFs were unable to demonstrate the escalation of issues to management to take corrective actions, where necessary.
- ix. The Compliance function of a few CIFs lacked adequate relevant expertise and they did not feel that they had an important role to play as a second line of defence for monitoring purposes. For some CIFs, the compliance function was simply copied the end-of-day and/or periodic monitoring reports which was prepared by the dealing room, without providing any effective challenge and/or performing their own additional documented reviews based on a representative sample.

Only very few CIFs reported that compliance had found instances where the CIF failed to meet its best execution obligations.

11. With regards to the monitoring/review of the order execution arrangements, the following have been observed:

- i. CIFs did not monitor the effectiveness of their order execution arrangements in order to identify and, where appropriate, correct any deficiencies. They didn't have a formal and well-defined review/monitoring process.

Only few CIFs were able to demonstrate substantive revisions of arrangements including documentation and subsequent management and/or board approval, apart from the amendment of their execution policy before the introduction of MiFID II.

- ii. For some CIFs, it was unclear what constitutes a material change that affects the firm's ability to continue to obtain the best possible result for their clients, whether a material change has occurred and there is a need to change their execution arrangements.

D. Good practices

- 12.** Good examples of CIFs' venue monitoring were identified. This monitoring was linked to client needs and requirements. For example, some CIFs had a robust scoring system for monitoring their liquidity providers and had a thorough onboarding process for potential counterparties based on an assessment, taking into account objective criteria such as financial strength, technology and breadth of coverage.
- 13.** In some CIFs there was evidence of sophisticated technology which was deployed to support the CIFs' real time, end-of-day and periodic monitoring program in order to ensure the fairness of the price proposed to clients, by comparing the CIFs' prices against the prices of independent price sources or other venues. These solutions were developed in-house by the CIFs, which invest heavily in IT, as well as by independent third parties, and took into account the CIFs' business models.
- 14.** Nearly all CIFs were not seeking to benefit from asymmetric price slippage. A few CIFs developed specific software to continuously monitor price slippage and re-quotes for all trading activity, taking into account the number of orders, the volume of orders (i.e. in pips) and the value of orders for all order types. The front-office monitoring teams of these CIFs received automated emails providing such statistics, which were also shared with the management.

E. Next Steps

Individual feedback was sent to the CIFs in the thematic sample and they were required to proceed with immediate corrective actions to address the areas of CySEC's concern, based on a mitigation action plan monitored by CySEC.

All CIFs should consider the issues raised in this circular against their policies and arrangements in place in relation to their best execution obligations. Poor best execution is proven to impact investor protection in not providing execution that is in the best interests of clients. If, when reviewing the policies/arrangements in place, CIFs identify any weaknesses - they should take immediate actions to ensure compliance.

Applicable Regulatory Framework

1. Article 28 of the Law states that:

«(1)(a) The CIF must take all sufficient steps to obtain, when executing orders, the best possible result for its clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. Nevertheless, where there is a specific instruction from the client the CIF executes the order following the specific instructions.

(b) Where a CIF executes an order on behalf of a retail client, the best possible result is determined in terms of the total consideration, representing the price of the financial instrument and the costs relating to execution, which include all expenses incurred by the client which are directly relating to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order.

(c) For the purposes of delivering best possible result in accordance with paragraph (a), where there is more than one competing venue to execute an order for a financial instrument, in order to assess and compare the results, for the client, that would be achieved by executing the order on each of the execution venues listed in the CIF's order execution policy which are capable of executing that order, the CIF's own commissions and the costs for executing the order on each of the eligible execution venues, shall be taken into account in that assessment.

(2) A CIF shall not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would infringe the requirements on conflicts of interest or inducements set out in subsection (1) of this section, section 17(3) and sections 24 and 25.

(4) The CIF must establish and implement effective arrangements for complying with paragraph (1). In particular, the CIF must establish and implement an order execution policy to allow them to obtain, for its client orders, the best possible result in accordance with paragraph 1.

(5)(a) The order execution policy must include, in respect of each class of financial instruments, information on the different venues where the CIF executes its client orders and the factors affecting the choice of execution venue and must at least include those venues that enable the CIF to obtain on a consistent basis the best possible result for the execution of client orders.

(b) 'The CIF must provide appropriate information to its clients on its order execution policy and must obtain the prior consent of its clients, as to the order execution policy. That information shall explain clearly, in sufficient detail and in a way that can be easily understood by clients, how orders will be executed by the CIF for the client.'

(7) The CIF that executes client orders must monitor the effectiveness of its execution arrangements and execution policy in order to identify and, where appropriate, correct any deficiencies. In particular, the CIF must assess, on a regular basis, whether the execution venues included in the order execution policy provide for the best possible result for the client or whether they need to make changes to their execution arrangements, taking into account of, inter alia, the information published under subsections (3) and (6). The CIF notifies clients with whom it has an ongoing client relationship of any material changes to its order execution arrangements or execution policy.

(8) The CIF must be able to demonstrate to its clients, at their request, that it has executed their orders in accordance with the CIF's execution policy and to demonstrate to the Commission, at its request, the CIF's compliance with this section.

2. Article 64 of the Commission Delegated Regulation (EU) 2017/565 ('the Regulation') states that:

«1. When executing client orders, investment firms shall take into account the following criteria for determining the relative importance of the factors referred to in Article 27(1) of Directive 2014/65/EU:

- (a) the characteristics of the client including the categorisation of the client as retail or professional;*
- (b) the characteristics of the client order, including where the order involves a securities financing transaction (SFT);*
- (c) the characteristics of financial instruments that are the subject of that order;*
- (d) the characteristics of the execution venues to which that order can be directed.*

For the purposes of this Article and Articles 65 and 66, 'execution venue' includes a regulated market, an MTF, an OTF, a systematic internaliser, or a market maker or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing.

2. An investment firm satisfies its obligation under Article 27(1) of Directive 2014/65/EU to take all sufficient steps to obtain the best possible result for a client to the extent that it executes an order or a specific aspect of an order following specific instructions from the client relating to the order or the specific aspect of the order.

4. When executing orders or taking decision to deal in OTC products including bespoke products, the investment firm shall check the fairness of the price proposed to the client, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products.»

3. According to Article 65 of the Regulation:

«2. Investment firms, when providing the service of reception and transmission of orders, shall comply with the obligation under Article 24(1) of Directive 2014/65/EU

to act in accordance with the best interests of their clients when transmitting client orders to other entities for execution.

3. In order to comply with paragraphs 1 or 2, investment firms shall comply with paragraphs 4 to 7 of this Article and Article 64(4).

4. Investment firms shall take all sufficient steps to obtain the best possible result for their clients taking into account the factors referred to in Article 27(1) of Directive 2014/65/EU. The relative importance of these factors shall be determined by reference to the criteria set out in Article 64(1) and, for retail clients, to the requirement under Article 27(1) of Directive 2014/65/EU.

An investment firm satisfies its obligations under paragraph 1 or 2, and is not required to take the steps mentioned in this paragraph, to the extent that it follows specific instructions from its client when placing an order with, or transmitting an order to, another entity for execution.

5. Investment firms shall establish and implement a policy that enables them to comply with the obligation in paragraph 4. The policy shall identify, in respect of each class of instruments, the entities with which the orders are placed or to which the investment firm transmits orders for execution. The entities identified shall have execution arrangements that enable the investment firm to comply with its obligations under this Article when it places or transmits orders to that entity for execution.

6. Investment firms shall provide information to their clients on the policy established in accordance with paragraph 5 and paragraphs 2 to 9 of Article 66. Investment firms shall provide clients with appropriate information about the firm and its services and the entities chosen for execution. In particular, when the investment firm select other firms to provide order execution services, it shall summarise and make public, on an annual basis, for each class of financial instruments, the top five investment firms in terms of trading volumes where it transmitted or placed client orders for execution in the preceding year and information on the quality of execution obtained. The information shall be consistent with the information published in accordance with the technical standards developed under Article 27(10)(b) of Directive 2014/65/EU.

Upon reasonable request from a client, investment firms shall provide its clients or potential clients with information about entities where the orders are transmitted or placed for execution.

7. Investment firms shall monitor on a regular basis the effectiveness of the policy established in accordance with paragraph 5 and, in particular, shall monitor the execution quality of the entities identified in that policy and, where appropriate, correct any deficiencies.

Investment firms shall review the policy and arrangements at least annually. Such a review shall also be carried out whenever a material change occurs that affects the firm's ability to continue to obtain the best possible result for their clients.

Investment firms shall assess whether a material change has occurred and shall consider making changes to the execution venues or entities on which they place significant reliance in meeting the overarching best execution requirement.

A material change shall be a significant event that could impact parameters of best execution such as cost, price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.»

4. Article 66 of the Regulation, which refers to the execution policy states that:

« 1. Investment firms shall review, at least on an annual basis execution policy established pursuant to Article 27(4) of Directive 2014/65/EU, as well as their order execution arrangements.

Such a review shall also be carried out whenever a material change as defined in Article 65(7) occurs that affects the firm's ability to continue to obtain the best possible result for the execution of its client orders on a consistent basis using the venues included in its execution policy. An investment firm shall assess whether a material change has occurred and shall consider making changes to the relative importance of the best execution factors in meeting the overarching best execution requirement.

2. The information on the execution policy shall be customised depending on the class of financial instrument and type of the service provided and shall include information set out in paragraphs 3 to 9.

3. Investment firms shall provide clients with the following details on their execution policy in good time prior to the provision of the service:

(a) an account of the relative importance the investment firm assigns, in accordance with the criteria specified in Article 59(1), to the factors referred to in Article 27(1) of Directive 2014/65/EU, or the process by which the firm determines the relative importance of those factors.

(b) a list of the execution venues on which the firm places significant reliance in meeting its obligation to take all reasonable steps to obtain on a consistent basis the best possible result for the execution of client orders and specifying which execution venues are used for each class of financial instruments, for retail client orders, professional client orders and SFTs;

(c) a list of factors used to select an execution venue, including qualitative factors such as clearing schemes, circuit breakers, scheduled actions, or any other relevant consideration, and the relative importance of each factor; The information about the factors used to select an execution venue for execution shall be consistent with the controls used by the firm to demonstrate to clients that best execution has been achieved in a consistent basis when reviewing the adequacy of its policy and arrangements;

(d) how the execution factors of price costs, speed, likelihood of execution and any other relevant factors are considered as part of all sufficient steps to obtain the best possible result for the client;

- (e) *where applicable, information that the firm executes orders outside a trading venue, the consequences, for example counterparty risk arising from execution outside a trading venue, and upon client request, additional information about the consequences of this means of execution;*
- (f) *a clear and prominent warning that any specific instructions from a client may prevent the firm from taking the steps that it has designed and implemented in its execution policy to obtain the best possible result for the execution of those orders in respect of the elements covered by those instructions;*
- (g) *a summary of the selection process for execution venues, execution strategies employed, the procedures and process used to analyse the quality of execution obtained and how the firms monitor and verify that the best possible results were obtained for clients.*

That information shall be provided in a durable medium, or by means of a website (where that does not constitute a durable medium) provided that the conditions specified in Article 3(2) are satisfied.»

4. *Where investment firms apply different fees depending on the execution venue, the firm shall explain these differences in sufficient detail in order to allow the client to understand the advantages and the disadvantages of the choice of a single execution venue.*
 5. *Where investment firms invite clients to choose an execution venue, fair, clear and not misleading information shall be provided to prevent the client from choosing one execution venue rather than another on the sole basis of the price policy applied by the firm.*
 6. *Investment firms shall only receive third-party payments that comply with Article 24(9) of Directive 2014/65/EU and shall inform clients about the inducements that the firm may receive from the execution venues. The information shall specify the fees charged by the investment firm to all counterparties involved in the transaction, and where the fees vary depending on the client, the information shall indicate the maximum fees or range of the fees that may be payable.*
 7. *Where an investment firm charges more than one participant in a transaction, in compliance with Article 24(9) of Directive 2014/65/EU and its implementing measures, the firm shall inform its clients of the value of any monetary or non-monetary benefits received by the firm.*
 8. *Where a client makes reasonable and proportionate requests for information about its policies or arrangements and how they are reviewed to an investment firm, that investment firm shall answer clearly and within a reasonable time.*
 9. *Where an investment firm executes orders for retail clients, it shall provide those clients with a summary of the relevant policy, focused on the total costs they incur. The summary shall also provide a link to the most recent execution quality data published in accordance with Article 27(3) of Directive 2014/65/EU for each execution venue listed by the investment firm in its execution policy. »*
5. The ESMA «Questions and Answers Relating to the provision of CFDs and other speculative products to retail investors under MiFID» - ESMA 35-36-794 - (Q1 and

Q2 in Best Execution section) provides guidance on the best obligations for firms offering CFDs to retail clients.

6. The ESMA «*Questions and Answers on MiFID II and MiFIR investor protection and intermediaries topics*» - ESMA 35-36-349 (Q2 in Best Execution section), provides further clarity on the 'fairness' of the price proposed to clients when executing orders for OTC products and explains the need for the CIFs to ensure that they have the necessary procedures and arrangements in place, as well as appropriate valuation systems.