

Buy-side Firms Use TCA to Measure Execution Performance

“Does your firm use TCA to measure execution performance and if yes, how effective a tool do you find it?”



Ian Firth, Head of Centralised Dealing, Aviva Investors

Ian Firth, Aviva Investors, responds

Aviva Investors both subscribes to and supports the use of Transaction Cost Analysis (TCA). We acknowledge there are limitations, both with available systems and market data. We aim to identify trends and ways to improve our trading strategies, and we have spent a great deal of time and resources to continually improve the process we operate. The key to efficient TCA is accurate data and efficient time stamping. This will demonstrate where within the cycle of the order there are inefficiencies. All of our equity trades are subject to review,

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although a small number may fall out due to the fact specific markets and benchmarks in those markets are not provided/supported.

Trades are loaded on a daily basis and there is commitment from dealers and our in-house execution analyst to ensure that as much information as possible is attached

to clearly identify specific trades. Regular reports with details and exceptions are sent to portfolio teams and management to monitor the ongoing performance of dealers, brokers and execution venues. We compare against various benchmarks, with Implementation Shortfall (IS) being our primary benchmark. There is greater discipline in recording all

attributes, whether price limits, volume restrictions or direction from the fund manager, in order to identify exceptions and where appropriate identify these trades.

We have seen, and continue to see, an improving trend to our execution capability. We are able to easily identify outliers and explain the reasons for these.

Improving results have helped with our profile and we have been able to distribute the results of our trading capability to end clients. We have received positive feedback from our clients, both direct and end, due to the results and the knowledge applied to explain said processes and results.

“While, in general, I find TCA tools effective, it is fair to say most, if not all are not currently calculating benchmarks across all venues or from all of the Dark Pools of liquidity.”

Brian Mitchell, Gartmore, responds

Yes; Gartmore’s monitoring and analysis of dealing efficiency is aimed at helping to reduce trading costs, identifying potential deficiencies and helping to ensure that our investment processes are in line with the highest market standards for buy-side best execution.

As part of our effort to ensure cost effective execution, we perform detailed TCA and within that we focus, amongst other things, on both the explicit and implicit costs of trading. Explicit costs include equity commission rates, ticket charges and local taxes. Implicit costs, which can account for more than 85% of overall implementation costs, include: (i) market impact (the cost of the bid/offer spread plus the price movement in excess of the bid/offer spread needed to trade the required volume immediately); and (ii) opportunity cost (the performance impact of not instantaneously completing the execution of an order).

While we use broker-led TCA offerings, (across our cash equities, PT and Algo business flows), we do not solely rely on them, given the potential lack of impartiality. It is also difficult to compare trades transacted by competing brokers, as most will inevitably use differing

methodologies. We currently use an independent TCA service to help analyse in detail the true impact of equity trade implementation on client accounts and to analyse Broker / Dealer performance, sending them all trade data from our OMS on a weekly basis.

We participate in an anonymous peer group TCA database, to review our rankings on a wide variety of metrics and, as such, this is an effective tool for comparative work. We can compare our trading costs at the aggregate and/or regional level with others on a more realistic, difficulty adjusted basis.

As Head of Dealing, I receive a formal, tailored report on a quarterly basis that analyses related costs by specific fund management grouping. This uses multiple benchmarks including Next/Open (next price tick), Next/Open (difficulty adjusted) and Multi-day Volume Weighted Adjusted Price (until order end date). These detailed reports also include data concerning higher cost orders, %ADV, commissions and turnover. This quarterly reporting is augmented by similar tailored weekly / monthly reports sent as a PDF, containing trading and compliance related data, as well as online access to enable our review and interrogation



Brian Mitchell,
Head of Dealing, Gartmore

of specific trades (including stock charts to review price evolution).

While, in general, I find TCA tools effective, it is fair to say most, if not all are not currently calculating benchmarks across all venues or from all of the Dark Pools of liquidity. Without doing so, buy-side benchmarks will be inaccurate to an extent, as they are missing a portion of the market. Unlike in the US, there is a lack of a consolidated tape in Europe; currently, TCA providers are basing their analysis on data largely from primary exchanges and the large MTF's. To an extent also flawed data as - delayed reporting of up to 3 days - post MiFID, makes analysis problematic, especially for those that aspire to real-time analysis.

Effective, yes; perfect, no.

Dale Brooksbank, State Street Global Advisors, responds

TCA has been an integral part of the investment management process at State Street Global Advisors for a

number of years. Increasingly, TCA is used on a number of levels - to scrutinise execution performance of orders, for individual strategies, analysis of our broker universe

and ultimately, the performance of venues that brokers smart route to.

Whilst we believe that TCA is an effective tool to get an overview



Dale Brooksbank, Head of European Trading, State Street Global Advisors Limited

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of execution performance, it is not without its challenges. As has been widely commented over the last 12-18 months, the fragmentation and inconsistency of trade reporting in Europe has made TCA a more resource-intensive necessity. The FSA guidelines in market watch 32 and the expectation of further guidance from CESR as part of MiFID 2 regarding trade reporting seems to be moving the TCA landscape forward, but broadly, the scarcity of consistent, reliable and high quality data means an element of subjectivity applies.

The benefits of TCA are well-defined and long, rich data sets allow effective conclusions to be drawn; benefits that we have found can permeate their way throughout our investment organisation, improving both execution performance and drive the investment process itself. FIX Tag 30 allows us to monitor venue execution in real time in the very short term, and a rigorous investment process that reviews longer data sets allows us to adapt strategy to improve execution results according to market dynamics.

Any thoughts about this or other articles?

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