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Finance Hive Equities Leaders Series: Surveying the TCA Provider Landscape

The first in a series of digital boardroom discussions for 7 buy side equity trader members of the The Finance Hive, this interactive discussion was designed to provide a safe space to discuss how buy side firms can be making the most of the TCA providers that are available to them and what they can be doing in house to plug some of the gaps. It also offered an opportunity to get a true lay of the land when it came to TCA provider performance by hearing stories from their direct peers who were using. This report summarises the conversation and highlights the key takeaways. The group consisted of global and regional head traders and trading technology leads from buy side firms with combined AUM of over \$8 trillion

How is your TCA set up at the moment?

Some of the larger buy side firms were keeping all of their analysis in house as they believed they could do a better job of analysing their own flow than any third parties. Those using third parties were largely dissatisfied with the value-add insights and consultative service they were able to provide. Third-party solutions being used by the group were denounced as “tick-box.” One member mentioned they’d recently switched TCA Providers and during their RFP process discovered that most of the main players were quite similar.

What are your biggest pain points around TCA?

The woes expressed by the group where TCA were quite varied and included:

- Third-party providers not delivering on roadmaps
- ETDs being neglected by providers and the quality of the data being poor.
- Lack of a solution that can analyse small cap stocks well
- Lack of differentiation between providers makes it hard to justify a switch
- Too many reports!
- Understanding the data you get back from providers
- Lack of information on how to improve trading
- Lack of customisation is frustrating
- Some providers are focused more on brokers than buy side

Why are you doing TCA?

The first step to evaluating TCA performance was to be clear why you were doing TCA in the first place. This also helps to put the right data into a system to get the insights you want out. Having clarity around this was considered by the buy side to be a key part of the puzzle. A common theme was the use of TCA to make trading more systematic. It was also noted that trading desks are looking for multiple outputs for different stakeholders including clients, compliance, best execution committees, portfolio managers and the trading desk itself. Being able to deliver valuable insights to all of these parties was considered a significant challenge, and one of the suggestions from the group was to use two forms of TCA (either internal or external). Using two forms would allow a trading



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desk to provide all of the insights the other stakeholders in the business required, but also analyse their trading and use TCA to improve how they manage orders.

How can you plug the gaps?

Although dissatisfied with the lengths that third-party providers could go to in order to help them improve the quality of their execution, the group had numerous ideas on initiatives that would help them to draw some value-add out of their TCA.

- Use Multiple Benchmarks

It was agreed that using multiple benchmarks was a good way of improving performance using TCA and there was a general consensus that using one benchmark doesn't really work (especially true in the small-cap space). Using multiple benchmarks was also cited as being helpful in demonstrating performance to compliance and end-investors. You can use the insights you get from measuring against multiple benchmarks to pick up on patterns and see if you should change the way you are executing certain orders.

- Utilise in-house execution analysts (IF you can afford it!)

The larger firms present had dedicated resources to fund a team of execution analysts who were responsible for systematically analysing trading performance and monitoring internal TCA systems to make sure they pick up on flags changing. The buy side firms in the boardroom who were working with these teams suggested that they propose their own projects and gave them a level of autonomy over what they were analysing to keep them engaged and challenge pre-existing bias on the trading desk.

- PM Profiling & Joining up Pre and Post Trade TCA

A number of buy side on the call were looking to explore or were already working on Portfolio Manager Profiling. It was identified that especially among junior managers, there was a lag between PM's making a decision and orders arriving on the desk. This almost always correlated with a performance lag. Having a better idea of PMs styles and strategies for trades was also identified as being important as enabled you to push back and compare and contrast between managers to identify patterns to make each transaction as cost effective. There is a lot of education the buy side can use through joining up post-trade and pre-trade TCA to educate PMs on expected market impact.

- Have Clear Selection Criteria when you do use external providers



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It is very important to have clear and defined selection criteria when you are onboarding a TCA provider. You need to know what you want and why you want it. The most important selection criteria for traders was offering a consultative service that could advise them on better ways of handling specific orders. It was agreed that there is a delicate balance meeting trader “value-add” demands and still being useful for end investors and compliance – so again the idea of using 2 TCA providers surfaced.

Key Takeaways

- Everyone is using technology and data to solve problems and make trading strategies more efficient.
- Everyone is at different stages in their trade analytic journey but are we all trying to achieve the same goal, albeit with different budgets and resources
- Sharing insights on providers we had used or looked at was really useful
- Make sure to look at some of the smaller providers – they may have the functionality and flexibility to fit into your workflow where the bigger names may not
- People are looking to move towards proprietary systems so they can have something more bespoke, but few have the resources to do so
- Keep your in-house tools in check by validating against external providers
- It's interesting to hear what people want from TCA and what they use it for.
- We will re-consider PM profiling as it seems like a quick win to get some value-add out of your TCA
- The idea of one TCA for clients and compliance and one TCA for traders is interesting, and something we had never considered
- There is a lot of value in having multiple benchmarks.
- We all have a responsibility for the whole investment process
- Big XYT – we had them in really early stages but having heard the feedback we should check them out again.
- We will follow up with Babel Fish and get that rolling
- Nice to see everyone is actually focused on trying to improve trading – there was a lot of passion on the call
- We are going to look back at our PM consultancy and have a look and see which investigations and which PMS this worked well with