



THE FINTECH CAPITAL FIFTH EDITION

LONDON'S FINTECH LEADERS TALK FINTECH IN 2015,
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INVESTORS, REGULATION, PERFORMANCE THROUGH PEOPLE,
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& COMMODITIES TRADING TECHNOLOGY

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INCLUDING FEATURES FROM SCOTT RICHARDSON, NADIA EDWARDS -DASHTI,
ANTONIO CIARLEGLIO, MICHAEL PATERSON AND JAMES HOUNSLOW

GLOBAL LEADERS IN FINANCIAL SERVICES AND COMMODITIES TECHNOLOGY RECRUITMENT



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A technological solution TO BEST EXECUTION

BEST EXECUTION IS NOTORIOUSLY ILL DEFINED YET REGULATION makes it an obligation. Brokers suffer from having to provide something unclear and money managers cannot efficiently exercise the fiduciary duty to procure Best Execution either. These muddy waters encourage Brokers to spend too much on execution technology and money managers to buy transaction cost analysis (TCA) with very little gain for the end investor. At the same time everyone is in agreement that the data used to perform TCA is not adequate.

This sorry state of affairs exists because we are focusing on the wrong issues. The ultimate goal must be to improve the overall efficiency of the industry and to ensure clients keep more of the returns from their investments. Industries become more efficient through the adoption of common standards. The music industry was changed by the existence of MPEG standards. Telecommunication and Internet would simply not work without good standards. One of the most important decisions in the definition of a good standard is what should be precisely defined and what should be open to different implementation. Striking the right balance between the imperative to herd cats and the necessity to let innovation flourish is difficult.

The key to best execution is to empower consumers to analyze the quality of the executions they are getting. In other words, the data should be standardized but the analyses and the way execution is provided should not.


Trade publication standards can be created to support improved customer choice and to simplify and strengthen the market place. This would replace the need for more complex and costly regulation.

Our proposal would enable market participants to make rational choices on complete information about the quality of their execution. It would make this analysis simple, cheap and efficient. And it would also increase transparency for less liquid securities and keep the competition between trading venues fair and vigorous. Our proposal can apply to the trading of all securities, in all venues, in both the US, Europe and Asia.

We propose regulation (a data publication standard) that would require:

- 1) All matching engines or individual traders effecting manual trades be registered with a unique number identifying them. >

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- 2) All matching engines be time synchronized to an accuracy that is within 10 μ s of the global time standard UTC and manual trades be time stamped within an accuracy of 1 minute.
- 3) All trade data be published, price, quantity, symbol, buy versus sell, etc, with the matching engine ID, the trade ID and with the time stamp of occurrence and time stamp of publication to a publicly accessible data stream
- 4) All the above trade data be made accessible free of charge and free of copyright in a common format at the end of the day with an open data license.
- 5) Brokers be legally required to communicate to clients, upon request, the list of all the trade IDs and matching engine IDs that constitute the execution of a given order. This report would be a simple .csv file with at least five columns including: Security identifier; matching engine identifier; date; trade identifier; fraction of the trade allocated.

The key to empowering customers and to creating an independent cottage industry of individual trade analysis is to use a very precise specification of the data and to provide a simple system. The size of the data covered under our proposal is very small. All the orders executed on any given day in a terse format would fit on a small thumb drive. Building applications to analyze executions would be possible at a small cost and effort. It would be open to anyone with some computer skills.

While quotes remain relevant, especially for regulators and market surveillance, they come in a wide variety of guises. The key insight in our proposal is that trades are "sufficient" to empower customers to choose the best way to execute their trades.

Armed with the Transaction Data, end users could take their trade IDs and matching engine IDs and have a company perform analysis to see if their broker was good at executing the orders. This would have the important effect of enabling rational choice and removing suspicion in the system. This would expose the potential problems and help the good brokers shine. We actually expect that there would be many companies providing independent analysis because there would be a much lower barrier to entry.

Our proposal utilizes currently available technology to bring trade execution into the clear light of day and provide a systematic method for understanding best execution. It will support efficiency and bolster confidence in the fair operation of financial markets.

(This article is adapted from a white paper published by the author. Available at: <http://www.quincy-data.com/white-paper-a-technological-solution-to-best-execution-and-excessive-market-complexity/>)

