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Today's evolving multi-asset TCA landscape

Michael Richter, Executive Director, Trading Analytics at IHS Markit dissects the reality from the myth of multi-asset class TCA

There has been a lot of talk about multi-asset trading – how do you define it?

From an asset management perspective, it means trading asset classes such as equities, FX, fixed income and OTC derivatives.

However, multi-asset trading has gained popularity as investment firms look at different opportunities to generate alpha and diversify portfolios. In turn, this has led to well-resourced firms creating centralized dealing desks to consolidate the execution function of these assets.

All the large asset managers that I engage have done this, but it is also the case with many small to medium sized fund managers.

There are a number of reasons why firms are moving in this direction: it allows them to pool expert trading knowledge and experience in a dedicated trading team; it also allows them to take advantage of technological advances in the trading space and to centralize them, particularly in terms of trading platforms and the associated technology, which brings a lot more efficiency to the execution process. It is much easier to manage the trading process when risk management and governance functions are centralized, and this is particularly important from a MiFID II standpoint, where there is a much higher focus on investor protection and execution quality.

Is there a growing demand for a TCA multi-asset product?

Yes, there is a large demand for a multi-asset TCA, and a lot of this is driven by MIFID II and the changes in best execution requirements.

FX and equity TCA are now mature products within the TCA suite and people are familiar with what can be done on these asset classes.

It's the newer asset classes that are seeing the most demand, for example bonds, CDS and OTC derivatives. Investment firms still need to provide a proof of best execution across hard to value assets using either an in-house or vendor solution.

The data on these assets can be scarce, but we have an ability to provide prices on them. For efficiency, investment firms may want to use the same provider across assets, and as such, we are seeing a significant increase in demand.

Another driver of demand: different areas of the business are more focused on best execution and the tools that allow the demonstration of a process, certainly in the last 2 to 3 years. For example, dealing desks are working in a more integrated way with compliance, and need the same (and sometimes different) sets of output to meet business needs.

What is the best way to build a product? What strategy do you pursue?

Data is the key to TCA, and there is no question about that. **Without good quality data, the data analysis will be futile.**

At IHS Markit, we have a wealth of pricing data which enables us to power our TCA offerings, especially for more illiquid OTC assets.

We launched TCA for our equity products in 2004, followed by FX in 2009 and fixed income three years ago. More recently, we expanded our TCA coverage to include CDS, Loans & MMI and OTC derivatives. If you look at all these products, the first aspect we look at is the underlying benchmark data; given we have strong data to rely on, we can start adding the calculations on top of this. Simplified, TCA is just calculations run between two different data sets, and we are able to leverage our expertise across an array of asset classes

We have also made a very conscious decision to make our offerings distinctly different in terms of the functionality and the benchmarks and metrics used. Each asset class has to be taken on their own merits, as they have unique market microstructures and nuances which have to be taken into account.

How is data analytics changing your TCA product and how has the quality improved?

Data quality has improved significantly over recent years. If you go back 15 years, orders would be placed over the phone, with no accurate timestamps, and very little transparency.

Today, multi-asset orders are feeding through electronic platforms, in some cases with millisecond timestamp precision. This has led to an improved set of execution data for TCA purposes. The buyside have also been good at pushing the sell side to provide the necessary data points to enable them to run the analytics they want to see. Transparency has improved greatly.

Analytics are becoming more sophisticated and the thirst to measure execution quality with new benchmarks and metrics is growing all the time. This is particularly prevalent in the newer assets classes people are starting to analyze.

A report by Aite last year predicts that as AI gains traction, there will be a delineation between losers and winners in the TCA provider space. Do you agree?

I think players in the TCA space who don't acknowledge the part AI will play in TCA could potentially end up losing in the long run. I do think AI in the electronic trading space will create clear winners and losers. There will be less human interaction in the execution process as intelligence evolves. It's inevitable.

AI does exist today for TCA: there are offerings that can look at an order from a pre-trade perspective and ascertain the optimal approach to execute, looking at historical data, patterns in momentum, liquidity, volatility, news stories, etc. The machine can make these decisions in seconds, whereas a human would have to spend a fair amount of time collating all this information.

As times, data, technology and regulations change, so will TCA. AI will play a part in an intelligent, efficient execution process across all assets.

What future developments do you see?

I think there will be interesting developments and advancements in TCA across assets. As the data quality improves and transparency increases, if we do see a consolidated tape that we have been hearing about for a long time now, that will be a large game changer.

I would like to see all assets provide cutting edge analytics and actionable insight. This is certainly where IHS Markit wants to go, as it is a differentiating factor.

What are the challenges going forward?

For vendors, one of the biggest challenges is differentiating yourself within a crowded marketplace. It's about knowing what you provide that your competitor can't, and thinking 3 or 4 steps ahead. It's also about developing new and fresh functionality, so you don't just fall into the crowd.

TCA solutions have to provide flexibility as new regulatory changes are a constant consideration. When building out new functionality and making developments this has to be kept constantly in mind.

Data plays a key part as you are looking to build out TCA in new areas, but acquiring data is going to be a large challenge in the TCA space as a whole.

Technological advancements have to be take into account as well, and consideration needs to be paid on how your product can compliment these advancements.

Overall, it's a very exciting and interesting place to be right now as the landscape ever evolves.

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