LIFE CYCLE OF A TRADE

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Life Cycle of a Trade

- Pre-trade processes
- Trade Life Cycle
- Post-trade processes
- Trade errors
Types of Traded Investments

- Equities
- Fixed Income
- Derivatives (swaps, futures, options)
- Currencies
Pre-Trade Processes

Broker Selection
- Due diligence
- Broker vote
- Affiliated brokers (agency, agency cross and principal trades)

Soft dollar arrangements
- Reasonability determinations
- Agreements with brokers and providers
Trade Life Cycle

- Building the order
  - Selection of brokers or venues
- Placing the order
- Monitoring execution quality
- Allocation to client accounts
- Settlement with client custodians
Building the Order

Order netting for *same* accounts

Excluding ineligible accounts (IPOs, securities with eligibility restrictions)

Order aggregation across accounts

Order

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Trade Life Cycle

Building the order
- Selection of brokers or venues (e.g., ATSs)
- Sequencing

Placing the order

Monitoring execution quality
- Explicit and implicit costs (opportunity shortfall)
- Transaction cost analysis

Allocation to client accounts
- Partial fills
- Fails

Settlement with client custodians
- Reconciliations
Post-trade Processes

Trading surveillance
- Insider trading
- Manipulation & window dressing
- Cross trades & use of affiliated brokers (and capacity)

Monitoring best execution
- Monitoring broker performance

Monitoring soft dollar arrangements
- Commission levels
- Mixed use allocations
Trade Errors

What happened? → Whose error and cause? → Breach of duty of care?

Did the error involve investment decision-making or implementation? → Did the error involve a breach of client imposed or legal restriction? → How handle (bust, move position, reverse in market, have broker cover)?

Inform client? → How calculate any loss (de minimis, opportunity costs, windfalls, netting, highest measure)? → How reimburse a client for a loss?
Heat Map of Trader’s Concerns

**Hot**
- Too much SEC focus on equity trades, need more scrutiny fixed income trading
- HFT being considered as non-impactful to markets
- Filing miscues
- Effects of gaming
- Challenging process to upgrade/change best of breed OMS/EMSs
- Efficient Use of Pre-, Post-, and Real-Time TCA
- Finding liquidity
- Counter party risk

**Hotter**
- Finding meaningful, account specific TCA "apples to apples"
- Information leakage via execution venues
- Short swing profits
- Best execution
- Drastic increase in non-trading responsibilities
- HFT
- CSAs/ways to reduce executing brokers
- Integrating New Trading Tools/Strategies on the Desk
- Algorithm/high-touch variation of trades
- Measuring performance
- What is the right TCA measure for the group

**Hottest**
- Affording technology needed to compete
- Sourcing natural liquidity
- Insider trading
- Hidden liquidity aggregation
- Monitoring our brokers execution logistics
- Fragmented markets
- Need for more flexible Multi-benchmark TCA
- Managing/Understanding Routing/Order-Handling Procedures
- Identifying which systems to add/keep on desk
- Budget/Paying soft dollars and research
- Resource consumption by our PMs and Analysts

Source: TraderForum, Top issues facing buyside traders (February 12, 2010)
SEC Enforcement Actions

- Best Execution
- Market Manipulation
- Principal Trading
- Soft Dollar Payments
- Trade Allocation
- Cross Trading
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