

HOW TO FIND A STRONG SELL-SIDE ORDER AND EXECUTION SYSTEM PARTNER



Order and execution management for the sell-side comes with a series of challenges. Compared with their compatriots on the buy-side, sell-side broker dealers have completely different workflows with much higher volumes and a greater number of counterparties.

To facilitate trading, sell-side firms have often implemented bespoke systems as part of long-running projects that become huge operational challenges and a significant drain on company resources. Sometimes these projects span many years and by the time the system is actually implemented requirements have already changed and new alternative projects have started.

With knowledge of this, brokers have a natural bias against change and in favour of existing solutions. For large global investment banks, this has typically meant huge investments in developing in-house enhanced trading systems functionality and analytics. What's more, having to continually invest and develop increasingly broad connectivity with global exchanges using highly customised solutions can not only take many years or sometimes decades to create - it can also be incredibly costly.

The largest investment banks spend billions every year on technology. A recent UBS study with Business Insider found both JP Morgan and Bank of America each spending more than \$10 billion on technology, **with costs** continuing to rise. For smaller and mid-sized brokers in contrast, the cost-constrained nature of their business often means that the reasonably priced, 'off-the-shelf' systems have been the only choice available.

Bloomberg **announced last year** that it would wind down its sell-side order and execution management system (SSEOMS) next year to focus on what Waters Technology described as "more profitable areas of their business." As a financial data giant, Bloomberg controlled a significant share of the market and its exit (even with plenty of notice) is accelerating significant change for many brokers across the world. This is providing a rare catalyst for change, and a once in a decade opportunity for sell-sides to re-evaluate their trading technology stack with a concrete deadline on the horizon. It also brings opportunity for other software providers to step-up in a market that Greenwich Associates estimates to be worth more than \$1.4 billion a year.

For firms forced to make a change with Bloomberg exiting the market and examining the potential options available, we at TORA wanted to examine three important considerations when choosing a sell-side order and execution management system.

IS THE CORE PRODUCT 'SELL-SIDE READY'?

The sell-side requires systems to be designed for the very fast pace of the markets, both in terms of absolute number of orders and the overall volume of order. These capabilities need to go hand-in-hand with a high throughput capacity, so that these large orders are executed in the fraction of the second required to prevent price slippage.

Automatic and smart order routing has also become imperative in recent years and needs to be considered a standard feature for sell-side execution providers.

The sell-side OEMS must include complex allocation functions designed for the sell-side desk, the ability to track commissions paid and received management and robust risk management capabilities. This link into the middle and back office is essential to provide STP. Finally, the ability to monitor sell-side trading compliance and legal responsibilities with detailed reports is also vital.

IS THE OEMS CLOUD-BASED?

The needs of the sell-side are not static, even if their choice of OEMS provider, up until the SSEOMS announcement, has historically rarely changed. The sell-side is still expected to turn to cloud-based OEMS infrastructure, that can be installed and updated remotely to adapt to changing operational requirements over time. Past decisions by many buy-sides to select cloud-based SaaS providers by certain market participants has created a key competitive advantage during the COVID-19 pandemic and this blueprint is expected to extend to the sell-sides.

IS THE OEMS SUITABLE BEYOND JUST EXECUTION?

An underappreciated industry differentiator is how an order and execution management system facilitates the whole trading lifecycle. When implemented well, this means robust integration with risk management processes and the entirety of the middle office. Strong post trade functions, including access to transaction cost analysis and other necessary regulatory checks, are also a critical factor. According to Greenwich Associates, the use of transaction cost analysis is **steadily increasing throughout** the buy-side. Eighty-eight percent of buy-side equity traders use transaction cost analysis, along with 60 percent of FX desks.

Many companies are making strides by incorporating emerging technology into their trading infrastructure, such as artificial intelligence to improve TCA. These changes have the potential to improve performance and are in line with trader demand. A survey conducted by JP Morgan found that 62% of traders across the buy and the sell-side believe that AI/machine learning optimized trade execution. The ideal sell-side OEMS provider should be also thinking along these lines and be offering deep solutions.

That said, because of the expense, time and potential disruption to clients, the decision making process inside the sell-side for execution services can frequently last for quarters, or even for years. A final decision is rarely made without a period of overlap, where a new system runs alongside the existing solution.

As brokers embark on this process, it is imperative they make an informed decision that takes into account both the current and the future needs of their traders and counterparties.

ABOUT TORA

TORA is the leading global provider of advanced investment management technologies supporting the full trading lifecycle. TORA has a full suite of cloud-based SaaS delivered execution, analytics and compliance tools, as well as order, portfolio and risk management capabilities and a global FIX network.

TORA's products are utilised by hundreds of the industry's leading hedge funds, asset managers, proprietary trading firms and sell-side trading desks globally. TORA has over 250 employees globally. With its headquarters in San Francisco TORA has offices across the globe including New York, Hong Kong, Tokyo, Jersey, Romania, Singapore and Sydney.