

Jacob Howard, Liquidnet
Global Marketing & Communications
+44 (0)20 7614 1626
jhoward@liquidnet.com

Sybille Mueller, Streets Consulting
Streets Consulting for Liquidnet EMEA
+44 (0)20 7959 2235
sybille.mueller@streetsconsulting.com

Survey of asset managers finds only 6% ready for MiFID II best execution standards

Liquidnet survey reveals that firms are starting to move from static TCA to full implementation of Best Execution Analysis, as ad-hoc policies give way to more robust systematic processes that are controlled and monitored across their organisation, as well as across all asset classes.

London, New York; 5 September 2017: Liquidnet, the global institutional trading network, today published the high level findings of a recent survey of asset management firms that probed their views of best execution requirements under MiFID II. The study, entitled "Re-Engineering Best Execution," found that just 6% of those surveyed believed they are currently ready to meet best execution requirements. 61% of respondents recognized their need to provide more granular detail to their policies, with a third planning to make changes to trading workflow, and over a quarter are specifically investing in technology to ensure a more systematic approach to best execution.

"Best execution no longer means a mere 'look back and check' on the outcome of an individual order. It is now the creation and implementation of a process that enables the trader to be in possession of as much valuable information as possible, throughout the lifecycle of a trade," **said Rebecca Healey, Head of EMEA Market Structure for Liquidnet.** "This information allows traders to adapt execution strategies that protect against adverse market conditions, or benefit from opportunities as they arise."

While transaction cost analysis (TCA) has been the traditional way that asset managers use to measure best execution, the industry has begun to see a shift towards more holistic Best Execution Analysis (BXA) inclusive of TCA. This allows trading desks to better understand and measure the full context of larger orders, as well as better analyze high touch and fixed income trading.

"With less than four months to go until full MiFID II implementation, firms now have to hit the reset button to ensure they meet the higher regulatory standards required," **Healey continued.**

Highlights from the research include:

1. **70% of asset managers are now reviewing new liquidity providers outside of their traditional broker relationships.** The execution landscape looks set for further change as a third of survey respondents plan to adjust their broker lists ahead of January 2018.

2. **Access to liquidity remains the number one requirement from 69% of respondents** in selecting execution partners, but how firms choose to access liquidity is diverging as unbundling demands a strategic re-think of which brokers to engage with, as well as where to trade.
3. **64% believe they have a cohesive strategy for improving client outcomes—but over a third of respondents acknowledged that they still have more to do** to move policies from a best-efforts and informal process to a firm-wide systematic execution process.
4. **More than two-thirds are no longer choosing where to trade by broker alone**—35% now select by strategy only with a further 33% using a combination of both strategy and broker.
5. The increased level of scrutiny over evidencing broker selection requires firms to move away from a static “look back” on trading performance to a more holistic approach of Best Execution Analysis requiring more accurate and reliable data. **Yet just 35% are receiving all the FIX data they need from brokers.**

Additional insights from the report include:

- **85% of respondents acknowledged there was more that individual firms could do internally to improve execution performance.** Buy-side firms are focusing on adverse venue selection or improving opportunity cost lost through adjustments to workflows such as PM timing, rather than just looking to their broker to enhance execution performance.
- **For 89% of respondents, delivering enhanced best execution will require a significant difference in approach** to the nuances of policy and process across the asset classes and methods of trading.
- **The lack of a viable TCA product in Fixed Income is leading 39% of firms to rethink their use of TCA** to deliver best execution, particularly when considering OTC products.
- **The impact of MiFID II implementation will extend beyond Europe’s borders given the operational complexity now required.** Clients are demanding more detailed best execution evidence across the globe pre-, at and post- trade.

Survey Methodology

Liquidnet’s best execution survey was developed to understand how firms are taking best execution from an ad-hoc generic policy to a MIFID II compliant operational process. The results from this survey are based on 55 detailed interviews with heads of trading/dealing across Liquidnet’s member network of asset management firms throughout North America and Europe. Participants were polled during April and May 2017, with 58% respondents from the UK, 25% from Continental Europe, and 16% from the US.

ABOUT LIQUIDNET

Liquidnet is the global institutional trading network where more than 870 of the world's top asset managers and other like-minded investors come to execute their large trades with maximum anonymity and minimum market impact. As the global leader in large block trading, Liquidnet provides access to unique trading opportunities in 45 markets across five continents. Liquidnet approaches every market with the same bold vision to provide a better, more efficient way to trade on a massive scale. It is this focus on size, combined with the strength of its network, disruptive technology, and commitment to transparency, that is revolutionizing the way equities and corporate bonds are traded. For more information, visit www.liquidnet.com and follow us on Twitter @Liquidnet.

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