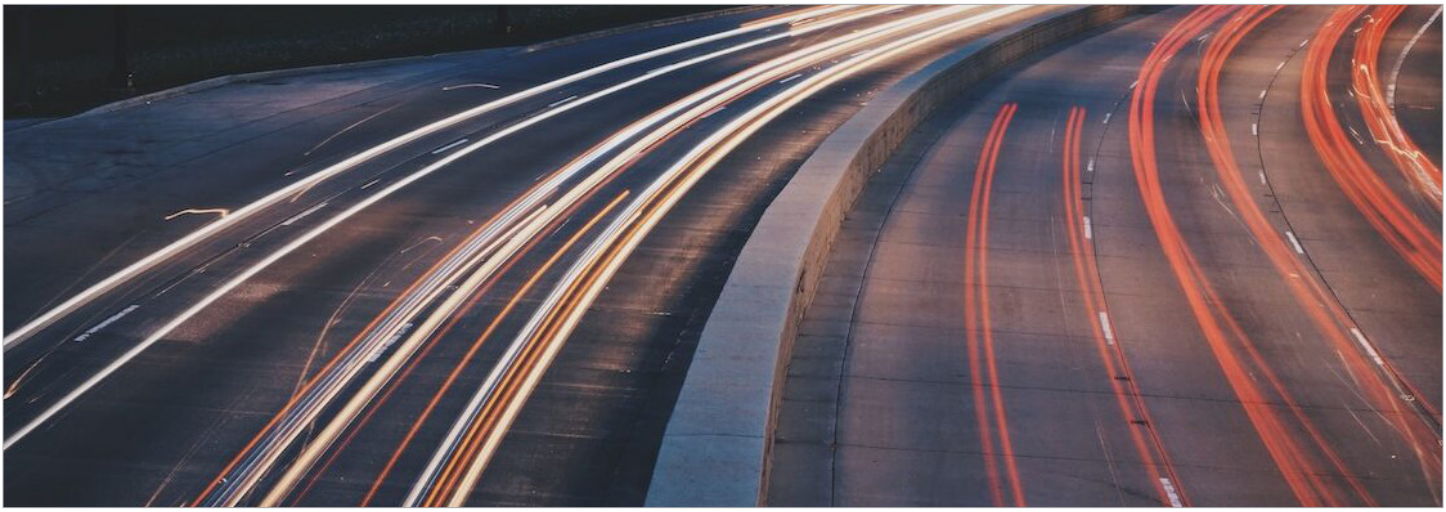
THE FUTURE IS FUTURES TCA



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As the electronification of markets has led to greater transparency in global markets, so too has the power of trade analytics been enhanced to produce more comprehensive, accurate and actionable trading recommendations.

Transaction cost analysis (TCA) is no longer just a "check-the-box" solution. The combination of data and analytic tools combined with the power of large language models has made TCA in all asset classes and their derivative markets crucial for investment management success.

With its early roots in global equity markets, TCA in fixed income, foreign exchange (FX) and now futures with TT® Futures TCA is becoming a must have as market participants traverse global markets with cross-trade dealing.

Futures markets are the fastest growing segment of the trading landscape. Market participants use futures to speculate and hedge, but most impactful now is the effect of recent interest rate hikes globally. These have forced traders to replace cash trading in everything from equities and fixed income due to funding constraints. This has resulted in decreased liquidity in the traditional cash markets.

The futures market has always been a strong candidate for TCA, with accurate and timely trade reporting of volumes and a depth of book that rivals any traded instrument.

Traders now are expected to understand their absolute costs versus many different metrics, including spread capture, volume, implementation costs and explicit cost per contract of a specific futures type.

Without TCA, traders and portfolio managers have no visibility into their peer performance results. Lacking this relative comparison, traders are flying blind as to whether they are achieving a poor, average or above-average execution result over any time period.

The general lack of competition between venues for specific futures contracts means the focus is on liquidity interaction and timing since there is not an option to trade on a different venue as there is in other markets.

Measures

Absolute trading costs can be categorized as either market impact or implementation costs. Volume-weighted average price (VWAP) has been a popular measure in equities along with execution costs versus a strike price in time.

Those costs can be calculated in many ways, including a comparison of cost versus the trade decision, entry time into an EMS, placement time to a broker and the market on cash close (MOCC) price.

Analysis of spread trades, "active" month versus less liquid expiries, seasonal analysis and correlation to cash market events are all important points of analysis to identify overall performance of market participation.

Moreover, futures market participants need to understand the depth of market and compare their execution result to the clearing cost of the trade in order to understand the absolute delta between the two.

All these calculations are possible due to the benefits of price discovery in the form of market data capturing price and contract

volumes married with accurate time-stamped and comprehensive microsecond data.

Benchmarks

Benchmarks can be calculated using several factors and methodologies. These include comparing the type of instrument traded, order type, contract volume, volatility and bid/ask spread.

When trading futures for speculation or hedging, it's important to construct peer universes which provide context to the absolute cost result.

These benchmarks constructed from trade data are anonymized, weighted and segmented to provide the closest peer comparison over a large representative data set for accurate and comprehensive analysis.

Peer analysis is critical because of the variety of market participants and their different needs and approaches to trading. Trading styles therefore differ greatly, bringing the need for comparisons to align with TCA requirements.

Use Cases

Market participants can use the data and the derived analytics to increase trading efficacy across portfolios with cross-trade transactions by marrying the two.

Analysis of TCA data offers actionable recommendations to traders and portfolio managers alike to the strategies and tactics they employ, thus increasing communication between the two constituencies on their trading goals and quantifying whether they have achieved best execution.

Those actions can be tested over time to confirm that orders are being managed properly by identifying automated execution routes or trades that require special handling.

Counterparties can be accessed on a level playing field by their clients, and brokers can report their trades on behalf of their clients, identifying the benchmarks they prefer, and developing a dialogue with clients to improve execution.

Moreover, the prospect of further regulation is inevitable. Whether an entity is a trading platform, futures commission merchant (FCM) or proprietary trader, market participants will need to get ahead of regulatory change.

Traders will want to own these tools to prove their value proposition. Internally or externally, it will be critical that traders know more about their executions than their clients or counterparties.

Conclusion

Unlike other asset classes and derivatives, the futures market has the technology, infrastructure, market and trade data to support a transparent, robust and valuable TCA solution.

Metrics and benchmarks will be calculated to prove best execution and offer trading insights that improve costs.

With the parabolic rise in futures volumes replacing traditional cash-based trading, the time is now for TCA to become a ubiquitous tool.

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