

## BEST EXECUTION – ASIA REGULATORS ARE GETTING INVOLVED

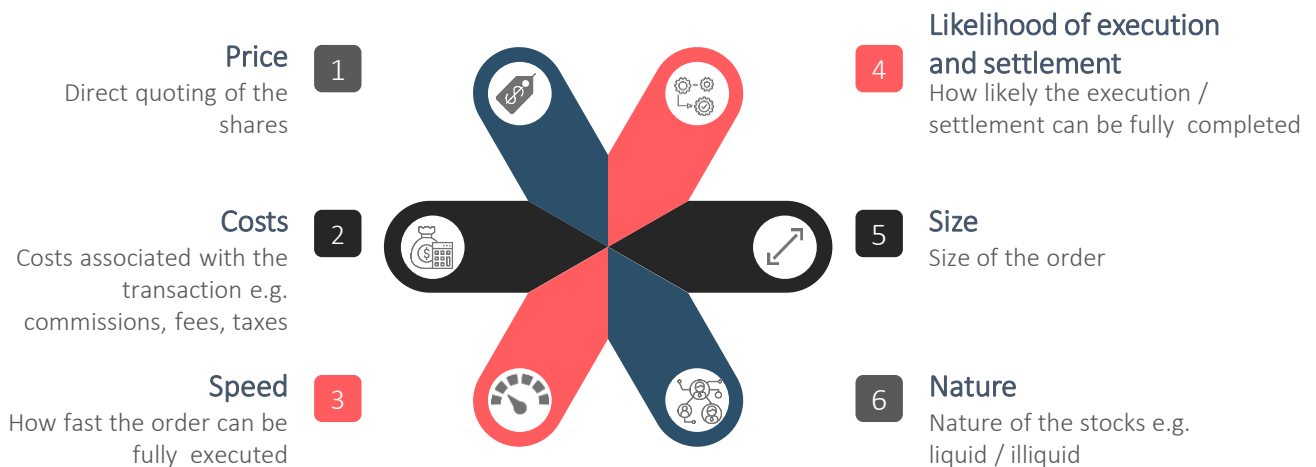
*Best Execution took center stage with the implementation of MiFID II, with most banks implementing new controls ensure regulatory compliance. Regulators in APAC are now focusing on this topic and a larger range of FI's must now be aware and ready to comply. Aurexia has experience in helping major European banks build robust Best Execution policies and procedures – keep reading to find out more on how to enhance your best execution framework*

### BEST EXECUTION IS NOW AN AREA OF FOCUS FOR ASIAN REGULATORS

In January this year, the Securities & Futures Commission (SFC) in Hong Kong released a detailed thematic review on Best Execution, highlighting weaknesses in the Hong Kong Market. Over the past 2 years, the accumulated fines on Best Execution in HK is over US\$5m

In December last year, the Monetary Authority of Singapore (MAS) completed a public consultation in, with a Notice and Guidelines expected to be released this year. Frameworks in both HK and Singapore are mostly in line with those of MiFID II, while also being slightly less prescriptive.

**Chart 1: 6 factors of best execution**



### COMMON CHALLENGES IN MEETING BEST EXECUTION REQUIREMENTS

Most banks are faced up with deficiencies in current tools for gathering data and monitoring execution of trades, as well as an increased workload with regards to additional process flows. Data quality is also an issue, along with the set-up of a strong governance in charge of monitoring. Aurexia identified 6 key challenges described in chart 2 hereafter.



Data source problems

- Firms must disclose the top five venues in which they trade by value of transactions and additional data for up to 22 asset classes.
- Sourcing benchmark market data for OTC products is not easily accessible



Traditional manual processes

- Some processes are still manual at execution level, which are prone to human errors e.g. manual recording of client instructions on paper
- With high daily execution turnover, instead of a systematic approach, senior members of the execution team only performed an “eye-ball” and ad-hoc check on all executed orders



Heavy workload on reporting

- Firms have to extract data from order management systems, make calculations, populate data fields in human and machine readable formats and place all the information on a public website
- More management reports related to best execution are required e.g. trade exception reports



Less developed monitoring tools

- Tools used by the compliance and internal audit functions to assess execution quality for OTC products are less developed than for exchange-traded products



Unclear roles & responsibilities

- Best execution policies and procedures have not been properly reviewed and/or updated e.g. product coverage, escalation procedures, best execution factors
- Undefined roles for the control and monitoring of best execution, or lack of 2<sup>nd</sup> and 3<sup>rd</sup> lines of defense



Insufficient monitoring of trading tools

- Algorithms of trading tools have to be regularly and robustly tested to ensure they operated as intended
- Some firms are not monitoring the execution outcomes of orders placed via its trading tools

Chart 2: Best Execution challenges

AUREXIA’S VIEW ON BEST EXECUTION FRAMEWORK

There are 4 key elements when implementing a framework which is suitable to fulfill both MiFID II requirements and the requirements of local regulations both in Hong Kong and Singapore. The foundation will be laid on the best execution mandate – setting up policies and education to staff. Then, the bank will need to ensure proper, regular management oversight, as well as the setup in control & monitoring. Finally, the best execution obligations with other parties should be assessed and periodically reviewed.

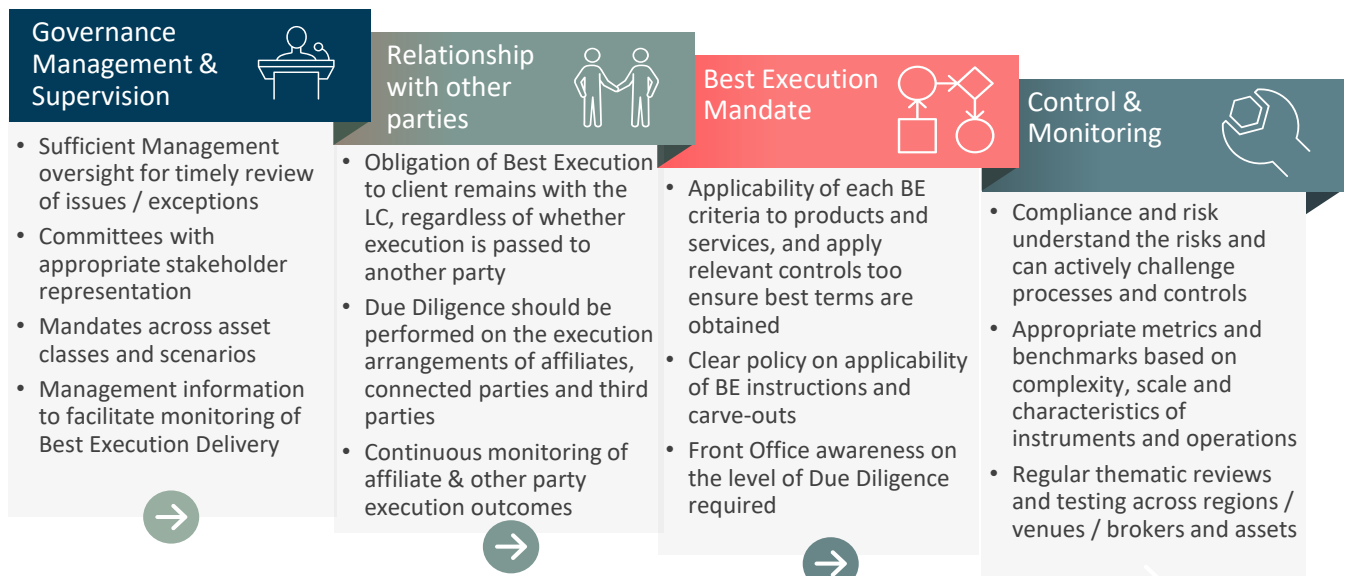


Chart 3: Aurexia Best Execution Framework

Aurexia consultants are experienced in reviewing and updating Best Execution Frameworks in APAC. If you would like to review your best execution framework in light of the new local regulations and guidelines, please feel free to contact us.