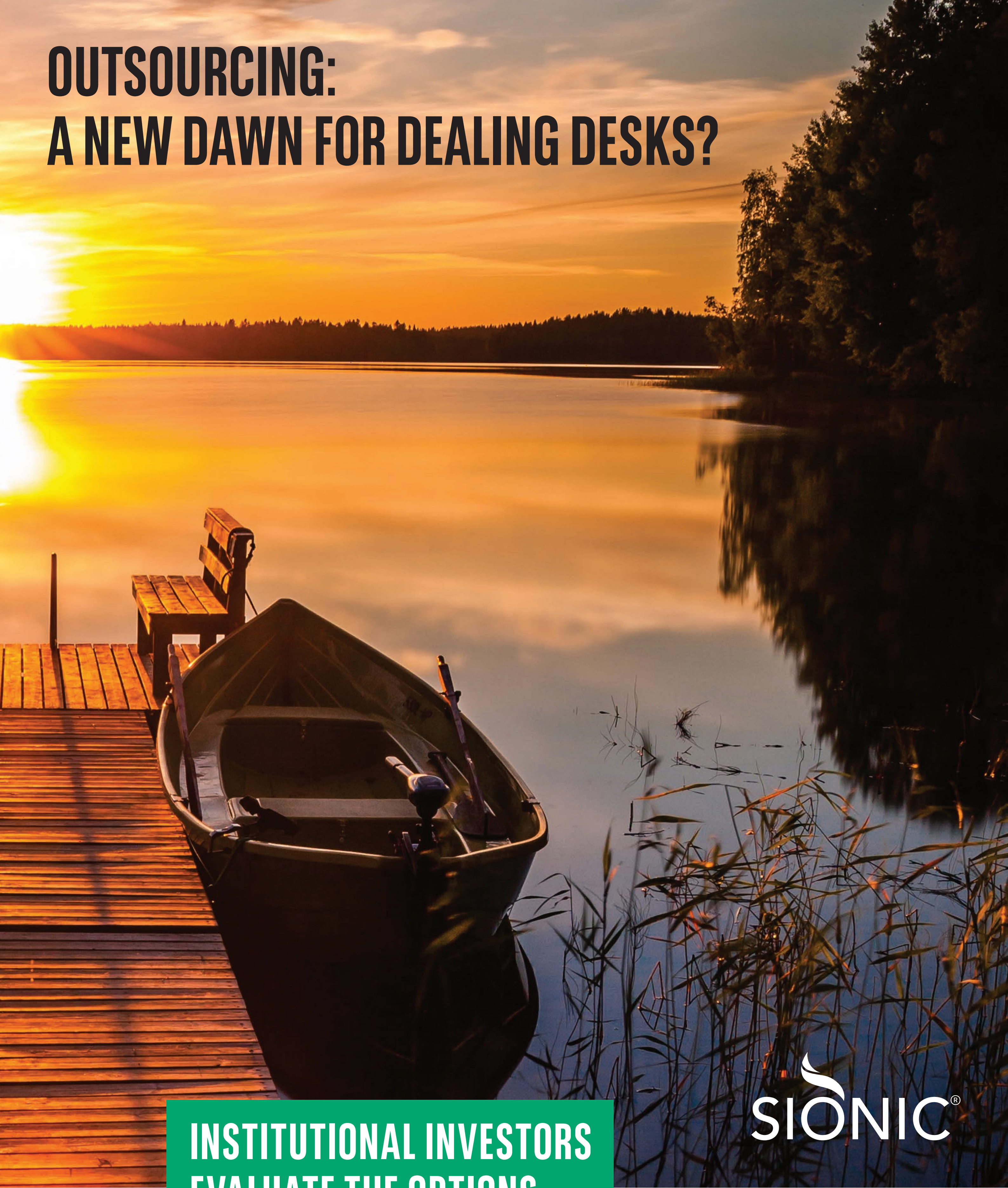
OUTSOURCING:
A NEW DAWN FOR DEALING DESKS?



INSTITUTIONAL INVESTORS EVALUATE THE OPTIONS

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MANAGING EDITORS

Clare Vincent-Silk, Partner, Sionic
Disha Rohatgi, Director, Sionic
Kate Spencer, Content Strategy Manager, BNP Paribas Securities Services

SPECIAL THANKS TO

Thomas Castiel, Head of Dealing Services, BNP Paribas Securities Services
Stephane Stovba, Business Development – Dealing Services, BNP Paribas Securities Services
João Correia da Silva, Product Development – Dealing Services, BNP Paribas Securities Services
Natasha Shields, Global Marketing Manager, BNP Paribas Securities Services

EXECUTIVE SUMMARY

The pressures to reduce costs, manage regulatory change, keep up with technological advances and improve capability are all causing investment managers to review how they execute orders.

MiFID II has increased regulatory reporting demands for market abuse monitoring and market transparency, forcing investment managers to incur considerable costs in reporting and system development.

An increasingly fragmented market has led to some firms investing substantially in the development of technology using machine learning to develop analytics that can make trading recommendations and identify the most effective means of execution.

Outsourced Dealing can offer a viable alternative to setting up an internal dealing function. It can boost capability where asset class coverage is weak and provide coverage in different time zones where there is no physical presence.

The use of Outsourced Dealing providers has increased steadily over the last 20 years, as have the number of providers in the market, which seek to address many of the current pressures. These include large custody banks and providers of investment operations outsourcing.

The types of provider have emerged from different backgrounds and are non-standard in the services offered. Offerings vary by:

- Geographical location
- Asset class coverage
- Regulatory permissions
- Service model

A survey of 30 investment managers* across Europe has highlighted demand for specific benefits such as:

- Cost management and savings
- 24 hour dealing capability (follow the sun)
- Reduction in operational risk
- Improved execution
- Regulatory support
- Access to technological advances

Despite the known benefits, there are still many firms who do not consider this an option for their strategic model, especially those who regard dealing as an integral part of the investment process. Some speculate whether dealers being remote from managers could affect communication, leading to reduced market awareness and control over the function.

Providers of Outsourced Dealing services are listening to clients' needs and concerns, and can provide tailored offerings, including bundling with other services such as investment operations or custody.

It is important to understand key requirements when selecting an Outsourced Dealing partner. Firms need to make well-informed decisions about which business model is most appropriate to accommodate their needs. Once a decision has been made, implementation is relatively straightforward.

All firms surveyed who have outsourced their dealing are providing positive feedback. There is now a proven established market for those looking for an alternative to an in-house dealing function or looking for flexibility and agility to move into new asset classes or regions.

* We consider "investment managers" to include asset managers, asset owners, sovereign wealth funds and wealth managers. Respondents were surveyed in February and March 2019.

TABLE OF CONTENTS

INTRODUCTION

The buy-side dealing function is facing a number of pressures that are causing investment managers to reconsider their strategic approach to dealing. In addition to cost challenges and pressure on fees, 44% of the firms we spoke to cited that supporting regulatory requirements was their biggest challenge. Other challenges were the ability to keep abreast of technological advances, improving execution outcomes through better sourcing of liquidity, and cost management.

Outsourced Dealing offers an approach to supporting these challenges by being an alternative to an internal dealing desk or by complimenting an existing dealing team.

There are an increasing number of providers in the market from the niche asset class specialists to the large multi-asset class custodian banks.

Interest in Outsourced Dealing is growing amongst investment management firms. Our report describes the current state of the Outsourced Dealing market, explains the different outsourcing models available and highlights the advantages and associated challenges in using such services.

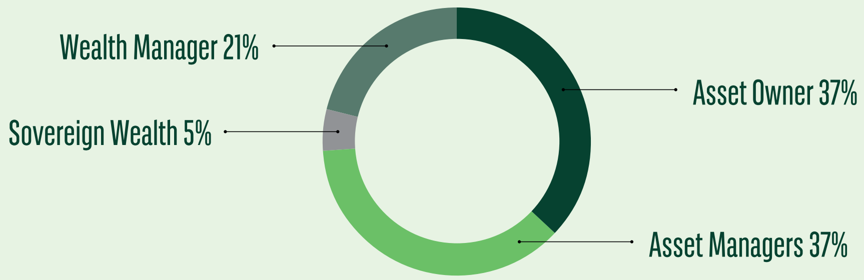
We explore the uptake and opinion on Outsourced Dealing from a range of investment management companies across Europe and look at what makes this service a credible option to achieve greater efficiencies and improved execution.

SURVEY

Our research includes the input of 30 investment managers, surveyed by Sionic in February and March 2019.

The approach was to gain opinion:

- Geographically across Europe – representative firms from UK, France, Belgium, Switzerland, Netherlands and Portugal
- By size of firm – categorised by AUM of €2 to €30 billion; €30 to €60 billion and €60 billion upwards
- By type of firm – these ranged from in-house pension managers, wealth managers, and institutional fund managers through to the large global managers
- By role – those interviewed were Fund Managers, COOs, Heads of Compliance and Heads of Dealing. In summary 57% had operational roles and 43% were investment professionals



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WHAT IS OUTSOURCED DEALING?

Outsourced Dealing is the use of a third party to place and work orders in the market with brokers and trading venues.

It can provide an alternative or extension to an in-house dealing function, offering a depth of experience and infrastructure to achieve effective execution on behalf of its clients. As well as helping investment managers to support best execution practices, providers can offer the following:

- Access to highly skilled dealing operations with advanced dealing techniques
- Comprehensive dealing infrastructure and Execution Management Systems (EMS)
- 24 hour dealing support
- Execution services for a range of asset classes across global markets
- Access to multiple sources of liquidity
- Enhanced negotiation benefits through higher dealing volumes
- Anonymised dealing
- Transaction reporting support
- Transaction Cost Analysis (TCA) reporting
- Other bundled services such as middle office trade management and custody

WHAT IS BEING OUTSOURCED?

Historically the investment manager has responsibility for the execution of orders, which he/she did by making a telephone call to a broker who then executed the order in the market. As firms grew, technology improved, and market infrastructure became more complex, leading to the introduction of order management systems where it became possible to create a centralised dealing function.

The dealers have responsibility for obtaining best execution as defined by the firm's execution policy. Dealers are themselves routing orders to brokers or other execution venues. Essentially, they are selecting services and assessing how effective those services have been at achieving best execution.

This first wave of centralised dealing was driven by internal efficiencies and regulation to ensure clients were treated equally:

- To group trades
- To improve operational efficiency
- To prevent in-house front-running
- To allow fund managers to concentrate on managing portfolios and separate duties
- To identify crossing opportunities which could save clients' money

The dealing role has evolved and become more sophisticated as new trading methods and venues have appeared. With MiFID-driven market fragmentation the role of the dealer has become less administrative and more specialist. However, not all dealing teams have the capability to deal with the new world.

Some firms have invested substantially in the development of technology using machine learning to develop analytics that can make trading recommendations and identify the most effective means of execution. Reducing the number of brokers, commission rates and the number of dealers was an additional benefit.

Firms are also setting up dealing functions in other regions to enable "live trading" in other geographies, for example, Asia. This results in significant cost by: acquiring a new office; employing additional staff; authorisation and approvals with local regulators; and, putting local broker agreements in place. There is also the challenge of internally connecting the technology, data and processes between the offices.

EVOLUTION OF THE OUTSOURCED DEALING MARKET

The market for Outsourced Dealing has been slow to develop. Some of the concerns have been:

- Lack of confidence in the providers. There have been a limited number of established providers and these are not well known
- General ignorance of the services available and a misunderstanding of the services on offer
- Poor sales and marketing activity from the providers
- A lack of visible flagship clients to encourage interest and uptake

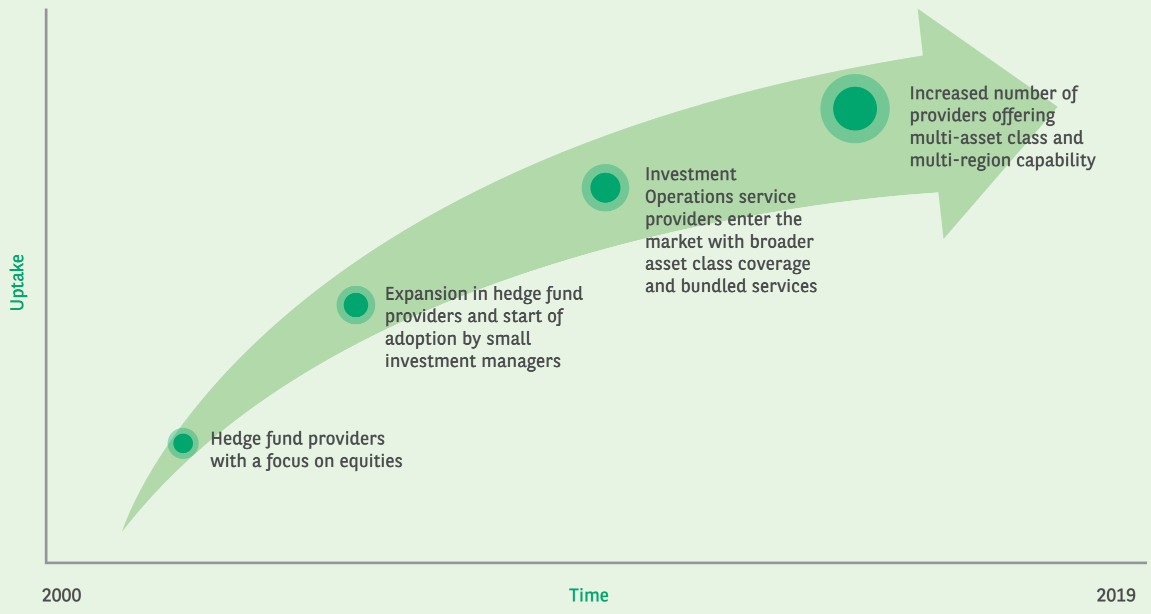
> "When we considered this a few years ago, it was an immature market."
>
> COO

> "The Outsourced Dealing services are interesting, but not compelling."
>
> COO

Outsourcing of services has moved up the value chain from repeatable, commoditised services to more complex and bespoke business processes based on high levels of knowledge and expertise. Dealing can therefore be seen at the forefront of the outsourcing continuum; although available for at least 20 years, outsourced dealing is a less mature market compared to outsourced middle office for example, due to limited availability of providers and non-standard offerings.

Initial adopters were hedge funds and start-ups, followed by asset owners who wanted to free their managers from execution without creating an internal dealing function. We now see investment managers looking to supplement their existing dealing operation with support in different regions. Interest and uptake are on the rise, especially amongst larger investment managers as the number of service providers is growing. More widely recognised outsourced service providers such as BNP Paribas Securities Services have fully established offerings which bring greater confidence.

The diagram below shows the evolution of Outsourced Dealing providers



CURRENT UPTAKE OF OUTSOURCED DEALING

From our survey, we found that 20% of firms have outsourced some or all of their dealing, all of which were managing less than €30 billion. With a service that has been available for 20 years, the uptake has been slow for reasons that are explained in Section 4 of this report. Due to the increased number of providers adding confidence to the market and addressing previously noted challenges, we expect interest in Outsourced Dealing to grow. Of those firms that have not outsourced dealing, 21% said they will consider outsourcing in the next 18 to 24 months.

DO REGULATORS AND CLIENTS CARE?

Asset owners historically have not prioritised the costs of execution, implicit or explicit. However, all parts of the investment process are being reviewed to ensure clients get value for money from their investment managers due to increased fee pressures. Outsourced Dealing is likely to be seen positively, especially if some of the cost savings are passed on in the reduction of fees.

Reforms under MiFID II mean that there are greater obligations around best execution. The new, more comprehensive best execution provisions in MiFID II strengthen the content and quality of disclosure to clients. Investment managers will be expected to step up their efforts to obtain the best possible result for their clients when placing orders with brokers on behalf of their clients. They will also be required to provide greater transparency on execution quality including the top five entities to which they sent orders for execution in the preceding year. Regulators expect that this information will provide better scrutiny of execution quality and order routing decisions – encouraging firms to have greater monitoring of execution quality.

Outsourced Dealing can provide support for regulatory requirements. As with any type of outsourcing, there are concerns over the fragmentation of activities and the potential for a breakdown of responsibility, as if providers fail to deliver, managers can be left unable to support an area of their business through the loss of capability.

Outsourcing is an established way of managing operations and gaining efficiencies whilst lowering costs. There will need to be proper oversight of this activity. Furthermore, it should be seen to be in the interests of the clients and any potential conflicts should be understood.

WHAT ARE THE DIFFERENT MODELS ON OFFER?

The services offered by providers vary considerably in terms of:

- Asset class support
- Geographical presence
- Service models
- Payment methods

When selecting a provider, it is important to identify the key requirements for outsourcing, then prioritise these service options before shortlisting and selecting a provider.

ASSET CLASS SUPPORT

The extent of support for the execution of different asset classes varies across providers. This tends to reflect the background of the provider and the clients they have traditionally serviced. For example, small clients (typically hedge funds) often require an equity execution service only. Larger investment managers will be looking for execution capability across multiple asset classes. Outsourcing of equity and FX execution is more prevalent, whereas support for other asset classes is more variable.

GEOGRAPHICAL PRESENCE

Some Outsourced Dealers have set up offices in different geographical locations to provide 24-hour trading capability, as it is generally considered that a better execution result can be achieved by dealers being physically located in the region where orders are executed. This is due to better local knowledge with an extensive broker network in the region, providing a conduit to multiple liquidity sources. They will also be trading "live" (i.e. will be awake in trading hours) in the associated time zone, allowing them to monitor execution and respond instantly to any market changes.

SERVICE MODELS

The Outsourced Dealing providers have been grouped into two* service models:

- Agency Broker
- RTO (Reception and Transmission of Orders)

They differ in respect to how they access the market, their contractual relationship with the investment manager and their regulatory permissions.

* Some providers can offer either model depending on the requirements of the investment manager.

A summary view on the different models available:

SERVICE MODEL	REGULATED MARKETS MEMBERSHIP	REGULATORY PERMISSIONS	PROVIDER DEALING MODE (DRIVER FOR COUNTERPARTY RISK)	DEALING AND EXECUTION CONTRACTUAL SETUP
AGENCY BROKER	Yes	Regulated as a broker	Riskless principal	A single contract between the investment manager and the agency broker
RTO	No	Regulated to provide outsourcing services: 1. receive and transmit orders on behalf 2. execute orders on behalf	Agent	Outsourcing contract between the investment manager and the RTO provider **plus** brokerage agreements between the investment manager and its brokers

Access to the market

This section relates to exchange traded instruments.

Those agency brokers that access the market directly, i.e. trade on the exchanges rather than go via a broker to access the market, will be treated as sell-side firms and therefore competitors to the broker community.

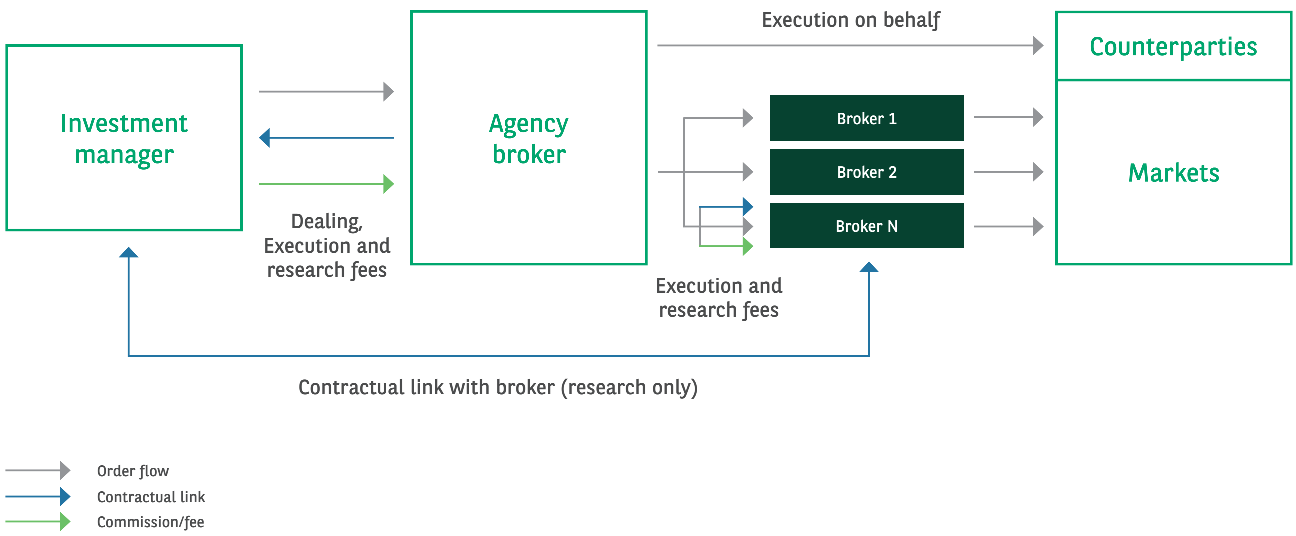
RTOs do not access the market directly and are seen as buy-side and are more likely to be treated as clients by the brokers. This will have a positive impact on the market intelligence shared by the brokers.

Regulatory permissions

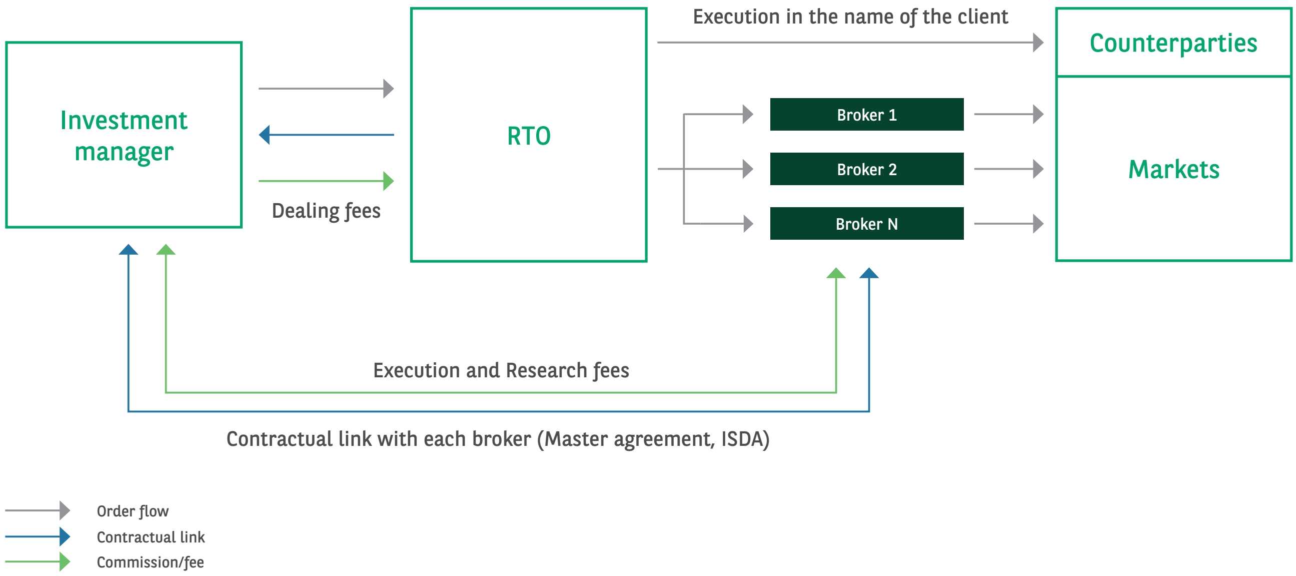
Agency Brokers are regulated to provide broker services whereas RTOs are not regulated as brokers. RTOs have the regulatory authorisations to receive, transmit and execute third party client orders and will be offering a true outsourced service as viewed by the regulator. This will influence the regulatory requirements for oversight.

Contractual Relationship

A) **Agency Brokers** will trade directly with the investment manager and be the counterparty to the trade; the trade will be riskless principal. The downstream processes of matching, confirmation and settlement are performed with the Agency Broker's Clearing/Settlement



B) **RTOs** will pass the name of the investment manager (act as an introducing agent) to the executing broker who then becomes the counterparty and then settles and clears directly with the investment manager. This model is most similar to the operation of an in-house dealing desk.



PAYMENT METHODS

Payment methods vary by provider and by asset class, volume, market and complexity.

For those regulated as RTO, the fee will be a basis point charge on the value of the trade for all asset classes.

For those regulated as brokers (Agency Brokers) in the case of equities this can be paid with commission as an execution service; in the case of other asset classes, the fee typically comes from the price spread.

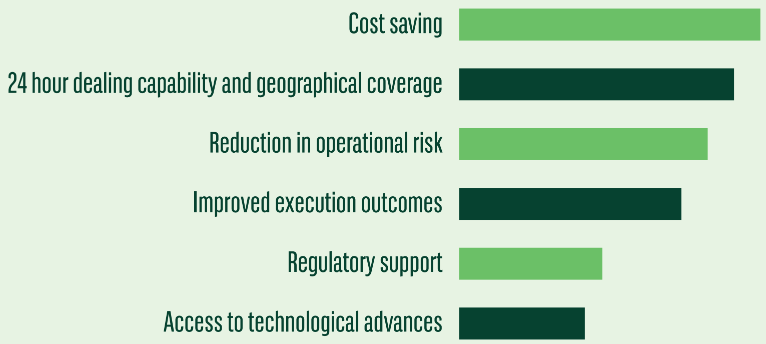
THE BENEFITS OF OUTSOURCED DEALING

The key drivers to Outsourced Dealing are managing costs, alleviating regulatory burden, handling complex execution and facilitating the demand for a global presence.

This section looks at the considerable benefits of Outsourced Dealing and how service providers have developed offerings to support these challenges.

The chart below indicates the level of importance placed on Outsourced Dealing benefits by our survey participants:

Market perception of the benefits to Outsourced Dealing



Based on the responses of 30 participants within our survey, this chart has been evaluated based on the weighted results obtained, according to the priorities which were ranked in order by those surveyed.

COST MANAGEMENT/SAVINGS

There is increased pressure on fees from investment consultants and regulators who are concerned over weak price competition, particularly for active funds. Costs are increasing especially due to increased regulatory demands. Margins are squeezed, and firms are looking at ways to reduce cost and to manage costs more efficiently.

“The fixed cost of setting up an in-house dealing desk is significant.”

Head of EMEA trading

Direct costs generally refer to the following:

- Dealers (salaries, bonuses, pensions)
- Internal staff (non-dealers)
- Systems and licences
- TCA providers
- Market data providers
- Premises
- IT and communication equipment

Key costs that are attributable directly to dealing are people, data and systems. Based on previous research carried out by our consultants, we have estimated that the cost of a dealer is on average €350,000/year each. A small dealing desk of three can therefore cost over €1 million. This small dealing desk will typically only cater to one time zone and offers limited bandwidth within the team when considering dependency on one dealer per asset class, notwithstanding holidays and sickness.

Outside of these costs, there are various indirect costs such as:

- Management
- Compliance
- Projects and support
- IT infrastructure
- BCP site and setup
- System/platform upgrades

Utilising an Outsourced Dealer alleviates a number of these costs, converting some of the fixed costs into variable costs, reducing management overheads and execution costs. Firms with smaller volumes and all the costs of systems and data for a two or three-person team, are likely to find more cost advantages in outsourcing.

FOLLOW-THE-SUN CAPABILITY

In order to compete, firms are developing new investment strategies and investing in additional asset classes and geographies. Pressure is put on the dealing function to increase capabilities and to operate in other regions during their working day. Can a single location dealing desk execute orders across all regions and still achieve the best possible result for the client?

Some investment managers are looking for support in other time zones when their dealers are not awake as there is concern that leaving orders overnight with brokers in other regions might not achieve the best possible result. Brokers manage a larger number of orders relative to outsourced dealing desks and are less likely to provide a high-touch service and have discretion to improve execution unless explicitly given permission. An outsourced desk will have greater awareness of its client’s requirements and for example, portfolio holding information allowing it to make informed decisions and to be given instructions, such as to cancel/amend an order given a news event/price shock.

REDUCTION IN OPERATIONAL RISK

Firms are keen to reduce operational risk and those resulting from dealing errors can be costly.

Any dealing error e.g. entering an incorrect amount, lies with the Outsourced Dealer and is covered by their balance sheet, augmented by their insurance.

> “Operational risk is not reduced but transferred in terms of liability.”
>
> COO

IMPROVED EXECUTION OUTCOMES

Outsourced dealing providers are likely to have:

- Access to a highly skilled dealing operation
- Larger scale giving them greater negotiation benefits
- Greater connectivity to a wide range of markets and venues
- Access to wider and better liquidity
- The ability to trade anonymously for a client in the market if required

The trend over the last few years is for investment managers to reduce the number of broker relationships. Connectivity to a greater range of brokers and trading venues by outsourcing could prove particularly advantageous. Participants at both small and larger firms alike noted that the benefit of having a service provider executing on your behalf on a larger scale brings greater negotiation benefits.

REGULATORY SUPPORT

Since the financial crisis in 2008, there have been growing regulatory demands on investment managers. Transparency has been the primary focus of regulatory change, e.g. MiFID II in Europe, predominantly around pre-trade price transparency and post-trade reporting.

Regulatory obligations cannot be shifted to the outsourced service provider from the investment manager, as the investment manager is ultimately responsible for compliance and oversight of any outsourced arrangements. However, Outsourced Dealers can to some degree alleviate the burden of additional controls and **Transaction Reporting**.

Transaction Cost Analysis (TCA) is often provided as a way of demonstrating performance and that dealing services are in line with best execution requirements.

Since regulators introduced a rule to unbundle research provision from execution costs, firms now determine a research budget which is not linked to transaction volume, transaction value or executing broker(s). Firms pay for investment research directly to providers or fund a Research Payment Account (RPA). Some providers will assist with the **RPA management** by making payments and providing associated reports back to firms.

These changes make it straightforward for firms to outsource dealing and can benefit by demonstrating unbundling of execution and research payments i.e. the Outsourced Dealer has the discretion of where to execute.

ACCESS TO TECHNOLOGICAL ADVANCES

Markets have become increasingly fragmented making it challenging for the trading desk to find the best pool of liquidity. Execution is therefore becoming increasingly complex. Large Investment Management companies are investing in technology to improve trade automation and to develop algorithms using TCA and related assets. Machine learning can be used to determine which algorithms are likely to contribute to performance.

Dealing desks need to stay up-to-date with technological developments to compete in the market and to prevent erosion of alpha. Firms are starting to build portfolio analytics and trade simulation internally, but it is costly to maintain.

> “A bigger support network is now needed for dealing. There isn’t additional cost, [it’s] just that the mix of people is changing e.g. business analysts, data analysis, technology, process type people.”
>
> COO

MARKET ATTITUDES TO OUTSOURCED DEALING

Despite an increase in market awareness and growing recognition of the benefits on offer, there are still mixed attitudes to Outsourced Dealing. Our research shows that two factors are of particular concern: dealers being remote from investment managers and a reduction in market awareness by not having direct access to brokers.

Our survey results showed that larger firms tend to discuss how Outsourced Dealers manage to comply with 'Treating customers fairly' when aggregating orders from multiple clients and allocating partial fills. Smaller firms share these views but are also concerned about the possible damage to existing broker relationships.

We found that these trends were common irrespective of country, firm type and role type interviewed.

Market perception of the drawbacks to Outsourced Dealing

Based on the responses of 30 participants within our survey, this chart has been evaluated based on the weighted results obtained, according to the priorities which were ranked in order by those surveyed.

DEALERS REMOTE FROM MANAGERS

Of most concern is having dealers working remotely from investment managers. The ease and importance associated with being able to "go upstairs to tell dealers to push a trade forward" is still significant. Managers feel that outsourcing can lead to a delay in communications and believe they have control over the process when the dealing function is managed in-house.

Communication is key, especially in illiquid markets. Managers like having dealers close by where they can talk about price, liquidity and whether orders are likely to be filled. The perception is that working with Outsourced Dealers would require a great deal of hand-holding and they may not always fully understand the dealing request.

One firm has a client commitment to manage dealing in-house.

> “Having a centralised dealing desk is our USP; Investment Managers use it as a selling point.”

Director of Operations

Contrary to this view, one of our participants who has outsourced noted that the dealing function is not a factor when measuring portfolio performance.

> “Dealing is not a source of alpha.”

COO

MARKET AWARENESS

Another factor which was common across 56% of respondents was the potential loss of market intelligence regarding market activity and sources of liquidity.

Interestingly, of the clients interviewed who already outsource their dealing, this was not a concern.

> “We get increased market awareness due to their trading team being constantly plugged into Bloomberg chat via the terminal.”

COO

One interviewee who doesn’t outsource, felt that outsourcing to a ‘big name’ provider would give them greater market access.

> “There are benefits in outsourcing your dealing function, e.g. having greater access to technology and market knowledge.”

Head of Dealing

BROKER RELATIONSHIPS

Smaller firms were particularly concerned about damaging existing broker relationships. Brokers make money from flow and managers want it to be clear where flow comes from. Considering the unbundling of research and execution payments, one could question the ongoing need to maintain certain broker relationships.

Some Outsourced Dealing models do pass on the name of the firm to the executing broker, thereby maintaining the connection.

TREATING CUSTOMERS FAIRLY

There were concerns about how Outsourced Dealers demonstrate that they treat customers fairly when aggregating orders and allocating fills across multiple clients. This was particularly the case for illiquid securities.

> “If you’re aggregating your orders with other people’s orders, or in a queue behind other people’s orders, you don’t get 1:1 service which you get in-house.”

Head of Dealing

EXECUTION OUTCOMES

A few firms wondered whether an outsourced service would reduce execution outcomes. The impact on the market is likely to be bigger if working orders from several firms.

> “If the brokers don’t know who is on the other side of the trade they are unlikely to show their flow, so market information is impacted.”

Head of Dealing

One UK wealth manager argued that their managers felt responsible for managing their client’s need:

> “There would be a misalignment between what you’re trying to do [in-house] and what the outsourced dealing desk thinks is a great outcome.”

Head of Dealing

Without proven statistical evidence of Outsourced Dealers being able to match or better execution outcomes, firms seem to be unwilling to lose this element of control.

OTHER COMMENTS

One firm suggested that outsourcing is likely to require a lot of oversight and administration to ensure good performance in line with their own execution policy.

A model where a firm moves to a single broker relationship will cause concern over counterparty risk.

05

TAKING THE DECISION

This section outlines the practicalities of selecting a provider and implementing an Outsourced Dealing solution.

WHAT CLIENTS ARE LOOKING FOR

We asked our participants what their top three factors would be when looking for an outsourced service provider. Two thirds of our participants answered that proven capability and experience to improve execution outcomes was a priority. This was closely followed by regulatory support in the form of TCA and regulatory reporting and thirdly, by cost saving.

An investment manager considering outsourcing its dealing function will need to understand their key drivers and requirements. Examples are:

REQUIREMENT	DESCRIPTION
FUNCTIONAL CAPABILITY	24-hour trading capability that offers better or equivalent order execution to support "live" trading of the following asset classes across global markets: • Equities • Fixed income • Money markets • FX A firm would also be interested in functionality to support: • Research Payment Account administration • Regulatory reporting A "High Touch" service
RELATIONSHIPS	Formal relationship management and Service Level Agreements in place
RISK	No increase in risk, in particular counterparty risk
CONFLICT FREE	To not compete with a company's own or other clients' order flow
ESTABLISHED AND ROBUST	To know that the provider is established, recognised and able to support the needs of a heavily regulated firm
COST	Cost will compare favourably to the cost of an in-house dealing function
GEOGRAPHICAL PRESENCE	Physical presence in regions where execution is required

OFFERING BUNDLED SERVICES

Some providers offer other core outsourced functions such as investment operations and custody.

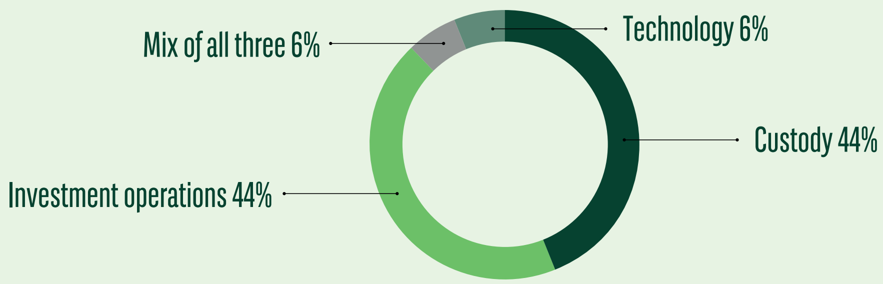
Bundling dealing, investment operations and custody allows investment managers to benefit from a full vertically integrated solution. With this setup, the outsourced dealing desk is the entry point of the investment manager and the services providers will manage all the workflow from execution to trade settlement. Overall 46% of our participants said they would be interested in a bundled service, with a preference split between custody and investment operations, such as middle office and trade management.

> “Bundling custody into execution is eminently sensible.”
>
> COO

Fiduciary managers will offer services further into the front office, such as portfolio rebalancing alongside dealing services. Where a firm is reviewing the wider operating model, greater cost efficiencies and streamlining of processes can be achieved by bundling the dealing with these other services; assuming the key dealing requirements are met.

We asked our participants whether service providers offering a bundled service alongside execution would be appealing and beneficial to their business model.

Preferred options when offering a bundled service



THE IMPLEMENTATION PROCESS

Implementation of outsourced dealing is relatively straightforward compared to the outsourcing of other functions such as investment operations. Areas for consideration are listed below.

Connectivity

For greatest automation, a FIX interface can be put in place between the investment manager and the Outsourced Dealer. This is the same process as adding a new broker connection and takes on average a few weeks to implement.

Order entry

Orders can be passed to the Outsourced Dealer via FIX from a Portfolio Management System (PMS) and via more basic methods such as Bloomberg chat or telephone, or by an order entry tool made available by the Outsourced Dealer.

Once pre-trade compliance checks are completed, the PMS will need to be configured to route either all orders or orders selected by asset class or market to the provider. This usually involves changes to parameter settings rather than changes to code.

Transaction processing

The Outsourced Dealer will execute the order and send executed details back to the investment manager.

It will be necessary to check that executions are accurately returned, and that appropriate error handling is in place.

Clearing and settlement

If using the multiple counterparty model by keeping existing broker relationships, the investment manager will continue to settle as before.

If using the single counterparty model, the investment manager will execute with the Outsourced Dealing firm and will clear and settle directly with them. No other broker relationships for execution services will be required.

Oversight and performance monitoring

There will need to be oversight of the service provider, ensuring they are delivering against the Service Level Agreements.

Whilst the service provider is likely to provide Transaction Cost Analysis (TCA) reports to demonstrate their performance capabilities, the firm may wish to undertake its own TCA analysis.

> “In outsourcing the dealing function, you outsource the job but not the liability or responsibility in oversight of the dealing outcomes.”
>
> Head of Dealing

CONCLUSION

With increasing numbers of established providers now offering an Outsourced Dealing service, **we believe that investment managers can be confident in considering Outsourced Dealing as an effective alternative**, or a complementary service, to support the internal dealing teams.

This is supported by the **positive experience noted by all the firms we surveyed** who are already benefitting from this service. Of those firms that have not outsourced dealing, **21% said they will consider outsourcing in the next 18 to 24 months**.

Increasingly an execution service is being bundled with other complementary services such as custody and investment operations, which offers further efficiencies to the investment manager.

Market attitudes show that there are still concerns about the service and despite growing acceptance by many, for others, outsourcing still seems conceptually a step too far. The different provider models can address some of these concerns, **so it is important to explore the options available**. Outsourcing undoubtedly has the power to enhance the way buy-side firms trade; **equally though, it may not be right for everyone**.

Those without an existing dealing team or who have a small single location dealing team are likely to benefit the most, as are those looking for flexibility and agility to move into new asset classes or regions.

ABOUT SIONIC

Sionic is a global consulting firm specialising in financial services. Our focus is on delivering measurable value through our unique blend of business and people performance services. **www.sionicglobal.com**

We are newly formed from three existing firms of longstanding pedigree: Knadel, Catalyst Development Ltd and Sionic Advisors. Under our Catalyst brand, we hold The Queen's Award for Enterprise in recognition of our global impact and are recognised in the FT listings of the UK's Leading Management Consultants 2019. Now united as Sionic, we have become the world's fastest growing independent consulting firm of our kind. We have a staff base of over 300 professionals based in more than a dozen locations worldwide including North America, Europe and Asia – and we continue to expand at pace.

Our people

Our expertise covers all aspects of the buy and sell-side. Typically, our global team of Managing Partners each has more than 25 years' of senior practitioner experience. Many are internationally regarded as market-leaders in their field and, in addition to their consulting roles, often sit on various industry advisory bodies particularly in the US and Europe.

Our sectors

We work exclusively in financial services. We cover all aspects of asset management, corporate and investment banking, financial markets infrastructure, insurance and reinsurance, private equity, real estate and trust administration, and wealth management.

Our services

We offer a broad range of specialisms in the areas of operations technology and regulatory change. We work with a range of firms from start-ups to most of the world's largest financial firms. To date, we have undertaken more than 500 assignments worldwide with more than 75% of our work being repeat business.

Our advisory and consulting delivery services are uniquely coupled with learning and development expertise.

Advisory

We are respected by our clients for our knowledge and expertise and our sound advice. Our advice is always pragmatic. We consider goals, business principles and constraints to develop the most appropriate strategies and recommendations for solutions to fulfil strategic and tactical needs.

Consulting delivery

We blend specialist knowledge and expertise with business change capability to design and implement solutions with our clients. Our expertise means we deliver appropriate, quality solutions more efficiently and more effectively than teams with only generic change management skills.

Learning & development

We understand people. Over more than 20 years, we have created an outstanding range of programmes and resources that enable our clients to boost their individual, team and organisational performance.

Blending our specialist financial markets, regulatory, operations and technology expertise with organisation design and coaching skills we deliver human performance improvement, relevant to your business, with lasting results.

Our reach

We have offices in London and Jersey (Channel Islands); New York and Toronto; Madrid, Stockholm, Vilnius and Zurich; Bangalore, Chennai and Mumbai; Singapore and Tokyo, with further offices including Hong Kong and Sydney opening shortly.

Our lead author

Clare Vincent Silk has more than 30 years' experience working in the financial sector. She is an expert practitioner in front office operations and systems, operational risk and regulation, outsourced dealing, and managing complex change. Clare has held senior roles on both the buy and sell side and is a former managing director of specialist investment management consultancy Investit and a former head of advisory for Pentagon. Now a Sionic Partner, Clare focuses on the front office, finding more efficient and effective ways to support the investment management process.

clare.vincent-silk@sionicglobal.com

ABOUT BNP PARIBAS SECURITIES SERVICES

We are a multi-asset servicing specialist committed to helping our clients achieve their ambitions both in terms of investments and cross-border distribution.

In a changing world, you need a partner that understands the changing market landscape and the intricacies of the securities services industry. Our extensive network of over 90 markets and the rich diversity of our people enable us to provide our institutional clients with the connectivity and local knowledge they need to navigate change in a fast-moving world.

Our clients benefit from securities servicing solutions closely integrated with the best-in-class capabilities of the BNP Paribas Group. These include treasury financing and advisory, and global markets solutions.

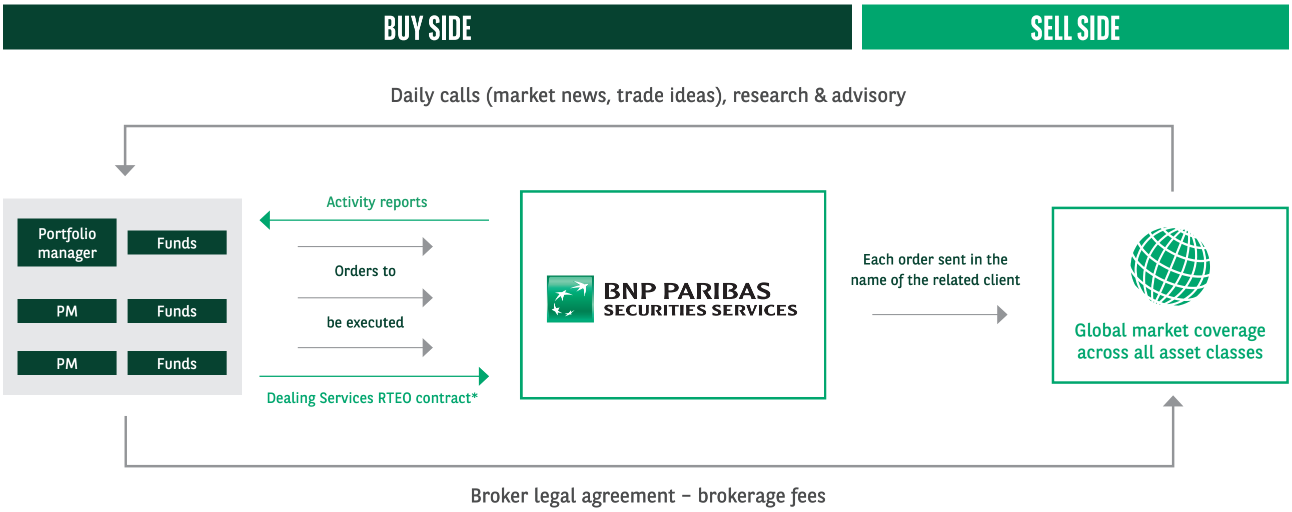
We are a wholly-owned subsidiary of the BNP Paribas Group and one of the highest-rated asset servicing banks in the industry. With us, clients' assets are safe and their risks are mitigated.

A distinctive outsourced dealing desk solution

Our buy-side dealing desk solution, Dealing Services, offers the flexibility to outsource all or part of your dealing function.

This solution provides you with better access to liquidity and strong best execution processes to comply with your regulatory requirements.

With BNP Paribas you can rely on a solid partner of choice that can cover the full life-cycle of a trade – from execution to custody and fund administration.



Broker neutral

We manage your orders strictly within your existing list of brokers/counterparties and apply the trading conditions defined by your investment teams. Our broker-neutral model promotes unbiased broker selection, as we do not receive any remuneration or inducement from the sell-side.

Best selection/Best execution

We maintain full audit trails and ensure we comply with your execution requirements, providing a full range of activity and best execution reports on your trading flows.

Single entry point to all asset classes and markets

Our solution covers all financial instruments and global markets, allowing you to diversify your investment portfolio by benefiting from a truly global dealing platform.

For more details or to contact our experts visit **securities.bnpparibas.com**

* RTEO: reception transmission and execution of orders.

GLOSSARY

BCP: Business Continuity Planning
The process of creating systems of prevention and recovery to deal with potential threats to a company.

Best Execution
The requirement for a firm to take all reasonable steps to obtain the best possible result, taking into account a range of execution factors, when executing client orders or placing orders with (or transmitting orders to) other entities to execute. Execution factors include price, costs, speed, likelihood of execution and settlement and size.

Execution Management System (EMS)
An EMS is an application that provides a sophisticated interface with which to route orders to the market for execution. It provides pre-trade transaction cost analysis to indicate market impact of orders to help select the most appropriate trading venue.

FIX
FIX is a vendor-neutral electronic communications protocol for the international real-time exchange of securities transaction information, which is useful to funds, investment managers, and firms. FIX has become the de-facto messaging standard for pre-trade, trade, and post-trade communication.

Middle office trade management
A range of trade processing services from execution to trade matching through to settlement.

MiFID
The Markets in Financial Instruments Directive (MiFID) is a regulation that increases the transparency across the European Union's financial markets and standardises the regulatory disclosures required for particular markets. MiFID implemented new measures, such as pre- and post-trade transparency requirements, and set out the conduct standards for financial firms.

Order Management System (OMS)
An OMS is an application that allows firms to input and manage orders for routing to destinations for execution. They also allow firms to change, cancel and update orders.

Portfolio Management System (PMS)
A PMS is an application that allows portfolio managers to model and rebalance their portfolios, generating orders for execution.

Research Payment Account (RPA)
An account controlled by the investment manager, funded by client money specifically for this purpose of paying for investment research services.

Reception and Transmission of Orders (RTO)
An Outsourced Dealing provider regulated to receive and transmit orders and to execute orders on behalf of its clients.

Transaction Cost Analysis (TCA)
TCA is a process in which the cost of a transaction is measured and compared to other outcomes. It is used to determine whether trading procedures are producing the best possible results. It involves recording the data from previous trading periods, including trade timing and relevant price and market movements. This data is then measured and compared to several benchmarks, such as the volume-weighted average price or implementation shortfall.

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