Managing trade execution expenses

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Capital markets firms need to reduce costs. Many firms are looking for ways to preserve their margins and use their capital most efficiently by analyzing and intelligently managing their expenses. That means dealing with trade execution costs, which are one of the largest expense items for capital markets firms.

The profusion of products, exchanges, brokers, clearinghouses and other market participants, along with faster digital trading and execution, has resulted in a growing volume of invoices for trade execution expenses. This has strained many capital markets firms' in-house systems, leading to uncertainty over the accuracy of the invoices, and whether the costs are being attributed to the right business lines. Increasing audit pressures and suspected brokerage overcharges are driving firms to consider centralized solutions to address the complex challenges associated with validating and reconciling vendor invoices.

A manual reconciliation process is prohibitively expensive, given the constant flow of incoming bills. Auditors must decide whether to focus on invoices with simple fee structures or tackle the more complex but time-consuming ones that are more likely to contain errors. If errors are overlooked, it can lead to hundreds of thousands of dollars in overpayments. Since most expense auditors want to pay on time, there often are not enough resources to check everything comprehensively.

The problem intensifies when multiple desks have separate contracts with the same vendor – often unbeknownst to the business heads. This makes it difficult to manage these relationships effectively. For example, many exchanges and brokers offer the same or similar products, but at different prices. Without knowing about the existence and terms of all a firm's contracts with its vendors, it is difficult to determine which vendor offers the best price.

Disparate legacy systems also increase a firm's regulatory risk. New reporting and capital requirements stemming from Dodd-Frank and Basel III are coming into effect, and without centralized insight into trading patterns, expenses and exposures, firms are crippled in their capacity to meet new audit requirements.

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The value of implementing a centralized platform that can handle the exponential volume increases and adapt to new and different products and vendor relationships is quite attractive. Beyond basic fee reconciliation, these systems offer a more advanced allocation of expenses at the trade level to internal traders and trading desks. This lays the foundation for more strategic cost decisions and accurate P&L statements. Improving data instills confidence within the firm and enables it to optimize vendor agreements, lower operational costs and direct trade traffic to maximize bottom lines.

That's a tall order. However, third-party vendors are busy working on solutions that tick those boxes. Given the cost and regulatory pressures weighing on revenues at capital markets businesses these days – and showing little sign of abating – investment in these integrated, scalable, modern systems will be worth the cost and effort.

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