

The Implementation of Best Execution Obligations

- An Analysis of the German Market, Surveys 2008 and 2009 -

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Analysis of best execution policies of German investment firms



- **Sample in 2008 and 2009**

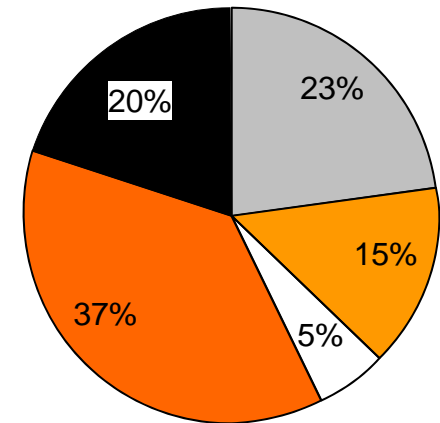
- 100 largest German financial institutions (total assets 2006)
 - Adjusted for financial institutions that do not provide investment services (e.g. mortgage banks, home loan banks)
- 15 largest online brokers (number of security accounts)
- Analysis of public information only (best execution policies)
- No analysis of internal provisions (execution arrangements)

- **Data collection**

- Internet research, queries via E-Mail and telephone

- **Analysis**

- Development of a comprehensive list of criteria
- Evaluation based on the list of criteria
 - Minimum legal requirements
 - Further aspects / best practices
- Ranking of execution venues



- Private banks and commercial banks
- Federal State Bank
- Mutual banks
- Savings banks
- Online brokers



75 best execution policies were evaluated both in Q2/2008 and Q3/2009

Weighting and ranking of the relevant criteria according to MiFID 21(1)



Number of policies evaluated			75 (75)
No details	2 (2)	No recognizable weighting	6 (8)
No ranking of the criteria recognizable	4 (6)		
Ranking of the criteria recognizable and Dynamic order routing (real time)	1 (1)	Recognizable weighting	69 (67)
Ranking of the criteria recognizable	55 (54)		
Percentage weighting of the criteria	13 (12)		

Criterion	Frequency	Rank 1	Rank 2	Rank 3	Rank 4
Price*	68 (66)	68 (66)	0 (0)	0 (0)	0 (0)
All costs	1 (1)	1 (1)	0 (0)	0 (0)	0 (0)
External costs*	67 (65)	55 (55)	12 (10)	0 (0)	0 (0)
In-house charges	34 (34)	0 (0)	34 (34)	0 (0)	0 (0)
Speed	59 (56)	2 (2)	18 (18)	38 (35)	1 (1)
Execution probability	58 (55)	2 (2)	17 (18)	38 (35)	1 (0)
Processing probability	7 (7)	1 (1)	3 (3)	2 (3)	1 (0)
Processing certainty	50 (48)	1 (1)	4 (5)	45 (42)	0 (0)
Complete execution	14 (14)	0 (0)	14 (14)	0 (0)	0 (0)
Liquidity	1 (1)	0 (0)	0 (0)	1 (1)	0 (0)

* Based on total consideration: **67 (65)**

Execution venues for different groups of securities



Tradable domestically	Stocks	Bonds	Certified derivatives	Investment shares	ETF	Other securities	Other fin. instr.
Domestic execution venue	42 (43)	42 (43)	41 (42)	5 (5)	4 (4)	11 (10)	4 (4)
Domestic floor trading system	2 (4)	4 (5)	4 (5)	1 (1)	4 (4)	0 (0)	0 (0)
Domestic exchange	7 (6)	11 (10)	12 (11)	6 (6)	9 (9)	5 (5)	6 (6)
Domestic home exchange	0 (0)	3 (2)	2 (2)	0 (0)	0 (0)	0 (1)	1 (2)
Other (e.g. forwarding)	1 (1)	3 (4)	4 (5)	1 (1)	0 (0)	1 (1)	1 (1)
Fixed-price business	1 (1)	2 (3)	0 (1)	0 (0)	0 (0)	2 (3)	0 (0)
Instructions	0 (0)	1 (1)	1 (1)	46 (46)	2 (2)	34 (34)	35 (35)
No details	2 (2)	1 (1)	3 (3)	13 (13)	49 (48)	19 (19)	9 (9)
Not possible	0 (0)	0 (0)	0 (0)	2 (2)	0 (1)	0 (0)	1 (1)
Specific execution venue	20 (18)	8 (6)	8 (5)	1 (1)	7 (7)	3 (3)	18 (18*)
Total	75 (75)	75 (75)	75 (75)	75 (75)	75 (75)	75 (75)	75 (75)

* thereof 16 nominations for EUREX

Tradable abroad	Stocks	Bonds	Certified derivatives	Investment shares	ETF	Other securities	Other fin. instr.
Foreign execution venue	2 (2)	5 (5)	3 (3)	1 (1)	1 (1)	2 (2)	13 (12)
Foreign stock exchange	27 (27)	18 (17)	17 (17)	0 (0)	0 (0)	11 (10)	1 (1)
Other (e.g. forwarding)	4 (4)	8 (6)	8 (8)	2 (2)	2 (2)	2 (2)	2 (2)
Fixed-price business	1 (2)	1 (1)	0 (0)	0 (0)	0 (0)	0 (1)	1 (2)
Instructions	36 (35)	34 (36)	34 (34)	45 (46)	45 (46)	34 (34)	34 (34)
No details	4 (4)	9 (10)	13 (13)	25 (24)	25 (24)	26 (26)	23 (23)
Not possible	0 (0)	0 (0)	0 (0)	2 (2)	2 (2)	0 (0)	1 (1)
Specific execution venue	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Total	75 (75)	75 (75)	75 (75)	75 (75)	75 (75)	75 (75)	75 (75)

Ranking of execution venues for domestic stocks



Segment	DAX 30			Other DAX (MDAX, TECDAX, SDAX)			Other domestic stocks		
	Execution venue	Frequency	Rank 1	Rank 2	Frequency	Rank 1	Rank 2	Frequency	Rank 1
Xetra-Best	4 (4)	4 (4)	0 (0)	4 (4)	4 (4)	0 (0)	1 (1)	1 (1)	0 (0)
Xetra	11 (14)	6 (8)	5 (5)	13 (14)	6 (8)	7 (5)	9 (11)	5 (6)	4 (4)
Berlin	1 (2)	0 (0)	1 (1)	1 (2)	0 (0)	1 (1)	1 (2)	0 (0)	1 (1)
Düsseldorf	3 (2)	0 (0)	3 (1)	1 (2)	0 (0)	1 (1)	1 (2)	0 (0)	1 (1)
Frankfurt	5 (4)	2 (0)	3 (3)	5 (4)	2 (0)	3 (3)	6 (4)	3 (2)	3 (2)
Hamburg	3 (2)	3 (1)	0 (0)	1 (2)	1 (1)	0 (0)	1 (2)	1 (2)	0 (0)
Hannover	2 (1)	2 (0)	0 (0)	0 (1)	0 (0)	0 (0)	0 (1)	0 (1)	0 (0)
Munich	1 (2)	0 (0)	1 (2)	1 (2)	0 (0)	1 (2)	1 (2)	0 (0)	1 (2)
Stuttgart	1 (2)	0 (0)	1 (1)	3 (2)	2 (0)	1 (1)	3 (2)	2 (0)	1 (1)
Tradegate	1 (1)	1 (1)	0 (0)	1 (1)	1 (1)	0 (0)	1 (1)	1 (1)	0 (0)
OTC	1 (1)	1 (1)	0 (0)	1 (1)	1 (1)	0 (0)	1 (1)	1 (1)	0 (0)
Dom. floor trading system	3 (3)	0 (0)	3 (3)	3 (3)	0 (0)	3 (3)	5 (4)	2 (2)	3 (2)
Dom. home exchange	4 (2)	0 (0)	4 (2)	4 (2)	0 (0)	4 (2)	3 (1)	0 (0)	3 (2)
Fixed-price business	3 (3)	3 (3)	0 (0)	3 (3)	3 (3)	0 (0)	3 (3)	3 (3)	0 (0)
No details	2 (1)	0 (0)	2 (3)	2 (1)	0 (0)	2 (3)	7 (6)	1 (0)	6 (6)
Total		22 ¹ (18)	23 ² (21) ²		20 (18)	23 ² (21) ²		20 (19) ¹	23 ² (21) ²

¹ The execution venues Hamburg / Hanover were counted twice in rank 1

² The execution venues Frankfurt / Stuttgart / Düsseldorf / Berlin were counted four times in rank 1 or 2

Results Best Execution Studies 2008 and 2009



Results 2008

- All investigated best execution policies have implemented the minimum legal requirements of §33a of the German Securities Trading Act (WpHG), i.e. the national implementation of Art. 21 MiFID
- Significant heterogeneity between policies of various investment firms: some extremely comprehensive, some minimalistic and not meaningful/helpful for clients
- Especially large differences with regard to additional information within the policies (e.g. consent to OTC execution)
- Frequently, there is no concrete prioritization / ranking of execution venues (e.g. “Domestic Home Exchange”)
- Best Execution Policies are only rarely used as a means of competitive differentiation or as a competitive factor (e.g. only one policy employs dynamic order routing)

Results 2009

- Results from 2008 study continue to hold
- Only minimal changes can be observed
- 59% (44) of all policies remained unchanged relative to 2008 (old version or just reissue)
 - 26 x old version (2007 edition) continues to be valid
 - 18 x reissue (new date), no change in content
 - 31 x updated policies

Thank you for your attention

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