MiFID and Best Execution

Turning compliance into competitive advantage

London

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The Dorchester

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PROFESSIONAL DEVELOPMENT QUALIFIED ACTIVITY

14 CREDIT HOURS

EDHEC Asset Management Education

MiFID and Best Execution

The Markets in Financial Instruments Directive (MiFID) replaced and extended the scope of the Investment Services Directive on 1 November 2007. Described as a "bigger bang" for European capital markets, MiFID revolutionises trading by opening execution services to full competition, creates new level playing fields for investment service providers holding EU financial service passports, and imposes extensive new organisational and business conduct requirements upon firms dealing with securities.

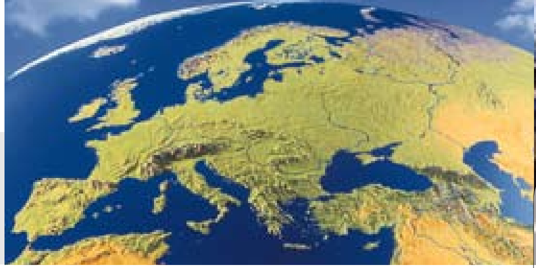
MiFID sweeps away the very concept of central exchanges and order concentration obligations as they currently exist in several European countries. It introduces a passportable operating framework for execution services that can be provided by regulated exchanges or multilateral trading facilities, or internalised inside the financial institution itself. In the long-term, this will result in the complete desegregation of the existing value chain related to execution services. While providing the opportunity for improving the efficiency of trading across a whole range of instruments, fragmentation poses threats to the quality of services provided to clients and the financial market structure itself.

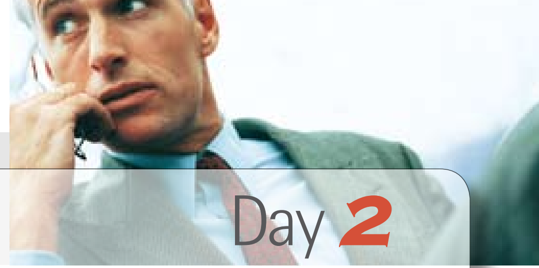
For investment firms and market operators, liberalisation of the execution landscape is balanced by a series of obligations on pre- and post-trade transparency, order internalisation, and transaction reporting that aim to protect clients and maintain the integrity, efficiency and fairness of markets. Central to investor protection is the 'Best Execution' provision of MiFID whereby investment firms are required to have taken all reasonable steps to obtain the best possible result for the client.

While "Best Execution" should be at the core of the MiFID strategy of every investment firm conducting business in Europe, the notion remains complex and ambiguous, making effective implementation and compliance highly challenging.

Designed and delivered by two MiFID specialists with demonstrated expertise in transaction cost analysis and best execution models, this intensive seminar gives participants a practical understanding of the directive's impact on their business and on the wider asset management industry, provides them with a roadmap for compliance with new operational requirements and equips them with the indispensable conceptual and practical tools to set up the processes to achieve and demonstrate best execution.

Providing research insights into the newly introduced Directive and its implications for all aspects of the execution process, the seminar allows participants to go beyond MiFID compliance and embrace best execution as a competitive advantage in the new pan-European financial markets. As such it should appeal to all buy- and sell-side professionals involved in the design, implementation or control of execution processes in equities, money market instruments, and derivatives.





Contents

This intensive two-day seminar builds upon the latest results of the best execution and operational risks research programme conducted by EDHEC and includes two case study presentations by key industry players in the field of execution operations.

The seminar addresses questions such as:

▶▶ What are the objectives and the key provisions of MiFID?

▶▶ What is the impact of MiFID on buy- and sell-side institutions?

▶▶ How will MiFID transform the European execution landscape?

▶▶ How to comply with the operational requirements of MiFID?

▶▶ What should the practitioner know about market structure analysis?

▶▶ What models can be used to measure quality of execution?

▶▶ How to analyse and measure transaction costs?

▶▶ How to estimate market impact and timing risk before order submission?

▶▶ What order submission strategies can be used to optimise execution?

▶▶ How to use algorithmic trading for best execution?

Day 1

Morning: Understanding and complying with MiFID

▶▶ A panorama of the European execution landscape
1. Pre-MiFID regulatory landscape
2. Legacy central exchanges and alternative trading venues
3. Fixed income marketplaces
4. Derivatives exchanges and trading venues
5. Other financial marketplaces, ECNs, and dark liquidity pools

▶▶ Understanding the Markets in Financial Instruments Directive
1. Towards a unified European Capital Market
2. Principles, objectives and scope
3. Structure of the regulatory process and state of the implementation
4. Overview of the Directive – understanding the main provisions
5. Next steps, monitoring process and extension to other asset classes

▶▶ Assessing the likely impact of MiFID
1. The example of the US equity market
2. The emergence of Multilateral Trading Facilities, ECNs and dark liquidity pools
3. Internalisation and new forms of intermediation
4. Impact on market quality, fragmentation and transparency
5. Advanced innovations in the execution space

▶▶ Complying with the operational requirements of MiFID
1. Client qualification: suitability and appropriateness tests
2. Conduct of business rules
3. Market transparency – pre-trade and post-trade transparency
4. Market integrity – transaction reporting and compliance with operating rules
5. Best Execution obligation

Afternoon: Understanding and measuring Best Execution

▶▶ Fundamentals of market structures
1. Supply, demand and liquidity provision
2. A review of the quote- and order-driven mechanisms for order execution
3. Analysing the structural characteristics of markets and defining market quality
4. Market liquidity, fragmentation and other characteristics of market structure
5. Information leakage

▶▶ Measuring Best Execution with Transaction Cost Analysis
1. Components and drivers of transaction costs
2. Post-trade analysis: measuring transaction costs with the benchmarking and the implementation shortfall approaches
3. Trading performance vs. transaction cost measurement
4. Introducing the EDHEC Best Execution (EBEX) framework

Day 2

Morning: Achieving Best Execution

▶▶ Estimating transaction costs *ex-ante*
1. Estimation of price appreciation
   - Price forecast models
   - Cost estimates
2. Estimation of market impact
   - Temporary vs. permanent impact
   - Market impact modelling and model calibration
   - Forecasting market impact cost
3. Estimation of the timing risk
   - Price risk vs. liquidity risk
   - Forecasting timing risk
4. Derivation of the Efficient Trading Frontier
   - Cost profile of a strategy
   - Optimisation formulation
   - Efficient Trading Frontier

▶▶ Optimising the process to achieve best execution
1. Venue and intermediary selection, order unbundling
2. Pre-trade evaluation of the trading strategy
3. Measurement and analysis of incurred transaction costs
4. Post-trade estimation of transaction costs
5. Comparison between actual costs and post-trade estimates
6. Trading performance measurement
7. Comparison between cost difference and value-added

▶▶ Algorithmic Trading in the MiFID environment
1. Fundamentals of algorithmic trading
2. Single stock algorithms: price and volume objectives
3. Programme trading and risk trading
4. Smart order routing and multi-venue algorithms
5. New frontiers in algorithmic trading

Afternoon: Implementing MiFID and Best Execution – Case Studies

▶▶ The impact of MiFID on the controls and processes of a global asset manager
Head of Operations, Details to be confirmed

▶▶ Achieving Best Execution and implementing algorithmic trading systems
Richard Balarkas, Global Head of Advanced Execution Services, Credit Suisse
The case for algorithms
Identification of the common pitfalls
Trends in market structure, smart routing and dark liquidity

SEMINAR LEADERS

Jean-René Giraud is the Director of Development of the EDHEC Risk and Asset Management Research Centre and the head of the "*MiFID and Best Execution*" Research Chair supported by Caceis, NYSE Euronext, and Sungard. Jean-René Giraud is in charge of developing the relationship between EDHEC and key industry players. Before joining EDHEC, he was Managing Principal at Capco (London) with responsibility for buy-side advisory services. Previously, Jean-René was a Senior Project Manager with Barclays Capital designing and implementing transaction systems, and prior to that Head of Consulting at SIP Software.
As a Research Associate with EDHEC, Jean-René Giraud heads the "*Best Execution and Operational Performance*" programme and specialises on hedge fund operational risks and best execution. His work has appeared in refereed journals such as the *Journal of Alternative Investments*, and the *Journal of Asset Management*.
He has authored a large number of articles in industry publications, contributed to "*Operational Risk, Practical Approaches to Implementation*" and co-authored the noted "*MiFID: Convergence towards a Unified European Capital Markets Industry*" (Risk Books, 2006).
Jean-René Giraud is a frequent speaker at major industry conferences on various topics related to operations and risk issues. He holds a Master's in Information Technology from the School of Engineering at the University of Nice-Sophia-Antipolis.

Catherine D'Hondt is an Associate Professor of Finance at EDHEC Business School. Dr D'Hondt teaches various graduate courses on capital markets and her primary research area is market microstructure, with a specific focus on traders' behaviour and order submission strategies.
Within the EDHEC Risk and Asset Management Research Centre, Catherine D'Hondt contributes to the "*Best Execution and Operational Performance*" programme. She conducts work on the long-term implications of MiFID for European capital markets and develops expertise in transaction cost analysis and trading performance measurement.
Her doctoral dissertation received the *Euronext – French Finance Association* award in 2003 and her research in the area of market microstructure and transaction cost analysis has been presented at major academic and practitioner conferences and published in refereed journals such as the *Review of Finance*, the *Journal of Asset Management* and *Finance Letters*.
With Jean-René Giraud, she has co-authored the reference text on MiFID: "*MiFID: Convergence towards a Unified European Capital Markets Industry*" (Risk Books, 2006) and an influential position paper: "*MiFID: the (in)famous European Directive?*" (EDHEC, 2007).
Catherine D'Hondt holds a Doctorate in Management Sciences from the Catholic University of Mons and the University of Perpignan.

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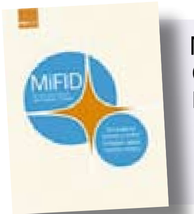

MiFID
Convergence towards a Unified European Capital Markets Industry

Jean-René Giraud and Catherine D'Hondt,
Risk Books, June 2006

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Attendance Fees
Two day course: €3,500 / £2,500 + VAT where applicable.
Fees include documentation, refreshments, lunch, and drinks.

With over 110 permanent professors and researchers and over 4,700 students spread over three campuses in Lille, Nice and Paris, the EDHEC Group is the largest provider of business education in France and one of the leading business schools in Europe. EDHEC Business School has been offering management training and development programmes since 1906 and is a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, AMBA).

EDHEC Business School set up the Risk and Asset Management Research Centre to conduct world-class academic research and highlight its applications to the industry. The centre's team of 35 researchers carries out six industry-sponsored programmes focusing on asset allocation and risk management in the traditional and alternative investment universes. In keeping with its mission, the centre systematically seeks to validate the academic quality of its research through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and develops business partnerships to launch innovative products.

To optimise exchanges between the academic and business worlds, the Risk and Asset Management Research Centre maintains a website devoted to asset management research for the industry: www.edhec-risk.com, circulates a monthly newsletter to over 125,000 practitioners, conducts regular industry surveys and consultations, and organises annual conferences for the benefit of institutional investors and asset managers.

EDHEC has also created a consultancy, EDHEC Investment Research, and a continuing-education arm, EDHEC Asset Management Education. EDHEC Asset Management Education helps investment professionals to upgrade their skills with advanced risk and asset management training across traditional and alternative classes.

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