

## Issues concerning block trading and transaction costs

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### Abstract

Measuring, controlling and minimising transaction and execution costs for institutional investors are becoming increasingly important. This paper discusses the issues involved and presents a theoretical model which minimises the expected cost of Block Trading. Transaction costs and Execution costs are fully defined and discussed. Unfortunately, the data necessary to analyse many questions of interest is very difficult or impossible to obtain. In reality, Execution costs are not directly observable. Therefore, many different measures exist, each with its own advantages and disadvantages. Theoretically, execution costs can be measured via price impact functions. Some of the most important issues concerning block trading is market capitalisation, volume traded, speed of execution, the inventory levels, the trader involved and the firm involved. All of the issues are discussed from a general perspective, therefore it is not discussed from the view of one particular market.

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*Keywords* : *Transaction costs, execution costs, block trading, dynamic programming.*

### 1. Introduction

Execution and transaction costs are becoming increasingly important, especially for institutional investors such as mutual and pension funds. The literature concerning transaction costs is large and diverse, see the reference list. Execution costs can have a significant impact on investment performance. For example, Perold [30] observed that a hypothetical or

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