

Questions & answers

MTS Technology and Innovation

Fabrizio Cazzulini, Head of Technology at MTS, shares his thoughts on technological innovation in the fixed income market, the impact of regulation and how MTS is supporting participants in a rapidly evolving market.

Q1 How are you adapting your government bond, credit and repo platforms to support participants in the changing regulatory and market environment?

Despite the introduction of MiFID II being pushed back to 2018, preparations for it are well underway and it continues to shape the business models of fixed income market participants across the board.

As a facilitator of regulated electronic markets for over 25 years, at MTS we are fully prepared for the new legislation and continue to fine-tune our technology in-line with the tweaks being made to MiFID II. We have always placed a major emphasis on transparency and efficiency, which are two of the key attributes that MiFID II is seeking to enhance.

One of the major challenges of MiFID II is related to the introduction of timestamping, a tool that will allow regulatory bodies to develop more comprehensive audit trails of trading activity.

This requires microsecond time accuracy and synchronisation throughout the trading day, something we have supported for some time as part of our market data offering, which provides microsecond and millisecond granularity.

We are now working to improve this further to deliver accuracy of less than 100 microseconds with respect to UTC (Coordinated Universal Time), where required for MiFID II compliance.

Our market data offering is already compliant with many of the high-profile items in MiFID II – unbundling, granularity and depth of historical data – before the details were even announced. We have improved and enhanced our data products over the years in response to customer demand, launching innovative services such as MTS Live, our real-time unaggregated data distribution facility for the European government bond market.

We will also continue to develop our technology in line with regulatory and customer demand, and in particular over the coming year will be we will be introducing improvements to MTS BondVision, including increased support for credit instruments and enhancement to the platform's RFQ functionality.

Q2 An increase in automation has emerged as a key trend in fixed income over the past year. How is MTS enabling customers to automate processes throughout the trading lifecycle?

Fixed income has definitely started to catch up with other markets such as equities in terms of automation over the past couple of years.

Market participants are increasingly adopting more and more sophisticated strategies and streamlining the trading workflow, applying trade automation from price discovery to execution and post-trade access to clearing and settlement.

At MTS we recognised our role in this evolution of the market early on and have been working closely alongside customers to support them in adapting their trading strategies and processes.

As a facilitator of both interdealer and dealer-to-client markets in the government bond space we are in the unique position of enabling banks to automate trading across these markets.

Our platforms offer broad FIX support, enabling banks to connect a broad range of tools that automate trading and hedging processes, as well as downstream and upstream actions such as managing positions and trading activity with clients.

We also offer over 10 years of rich historical data that gives a comprehensive market overview and is used by banks and the buy-side to test and fine-tune API models and validate strategies.

MTS historical data comes direct from our interdealer market, which is one of the premium sources of fixed income liquidity. We are the only fixed income data provider that has been offering this level of depth and quality for over a decade.

In our interdealer MTS Cash market we offer a MidPrice functionality, which allows banks to leverage automation to take advantage of narrow spreads by trading on the median average of the bid and offer rates for a wide range of fixed income securities.

We also automate the monitoring process. Our platforms have sophisticated monitoring technology built into them that automatically identifies any abnormalities in trading patterns and behaviour, enabling a timely response to ensure these markets remain stable and orderly.

In addition our monitoring team offers a second level of expert support and is responsible for market supervision, providing members with data and reports on their own activity and liaising with the DMOs when requested.

Our platforms automatically provide the type of information required for regulatory compliance via STP, such as best execution and some of the data necessary to contribute to transaction cost analysis.

Q3 How are you leveraging technology to address liquidity challenges in fixed income markets?

During 2015 we teamed up with B2SCAN to launch a major initiative to enhance pre-trade liquidity discovery in the fixed income markets. MTS B2SCAN is an aggregator and search engine of bank inventory, runs and axes for the buy-side, which enhances pre-trade information and efficiency for traders on MTS's BondVision platform in Europe.

We have also focused significantly on enhancing liquidity in the corporate bond and emerging market debt markets through our MTS BondsPro platform.

One of the most notable changes was the introduction of an HTML 5 interface. This greatly improves the accessibility to the market by offering users a cutting edge front-end solution that enables access without the need for local software installation. There are very few platforms using this kind of technology so extensively, and by improving ease of access we have increased participation and liquidity.

By having a web-based GUI we are also able to rapidly roll out other liquidity-enhancing initiatives such as our colour coded pricing feature.

This interesting feature enables traders to locate the most reliable sources of liquidity quickly and efficiently, even in volatile market conditions, by highlighting firm prices in either pink or blue, depending on the probability of trade execution.

We have also focused on facilitating cross-border liquidity on the platform, having rolled it out in the UK and Switzerland and enabling participants in those jurisdictions to trade with each other and with US counterparties. This has led to a rise in buy- and sell-side engagement on the platform, contributing to an expansive trading network with over 650 institutions across the US, UK and Switzerland.

Q4 As business models continue to evolve, how does MTS differentiate itself through technology?

Both banks and buy-side institutions are going through a period of significant change, and while their business models evolve, MTS prides itself on investment in R&D to deliver the optimum combination of innovation and stability across our product range.

Past performance is not a guarantee of future results, but our technology leverages over 25 years of experience and stability. Our customers can be assured that the innovative products and enhancements we roll out over the coming year will be grounded in this track record of stability and consistency.

About MTS Group

MTS Group facilitates a number of regulated electronic fixed income markets across Europe and the US that are managed centrally to ensure optimum levels of global harmonisation and consistency. Over 500 unique counterparties trade an average volume of €100 billion each day on these platforms.

The individual companies within the MTS Group are regulated by financial services regulators in a number of European jurisdictions, including Financial Conduct Authority (FCA), Italian Ministry of Finance, Banca d'Italia, Consob, Autorité des Marchés Financiers (AMF), and in the United States by FINRA and SEC.

MTS Cash is a comprehensive and professional cash securities trading environment for the interdealer marketplace. MTS cash includes several domestic markets regulated in different jurisdictions enabling primary dealers to access unparalleled liquidity, transparency and coverage.

MTS Repo provides an order-driven market for the electronic transaction of repo agreements and buy/sellbacks in Italy. Agency Cash Management (ACM) is a UK-regulated electronic auction platform that uses the MTS Repo technology to enable cash-rich investors to enter into secured money market investments via the tri-party repo mechanism.

MTS BondVision is a trusted and efficient multi-dealer-to-client electronic bond trading platform, delivering exceptional access for institutional investors direct to market makers. MTS BondVision is accessible in Europe from the Italian and the UK legal entities and in US through the US legal entity of MTS Group. On the BondVision platform, MTS Group provides institutional investors with real-time pricing and the ability to trade with the major dealers.

MTS Credit provides a variety of electronic execution methods for a wide range of multi-currency non-government bonds, including covered, SSA, corporate and financial bonds. MTS Credit is composed of financial instruments available to trade on both BondVision and MTS Prime.

MTS Swaps leverages existing MTS Group distribution technology to deliver immediate access to a diverse range of liquidity providers through your chosen prime banks.

MTS Data is sourced directly and exclusively from the MTS interdealer market and includes benchmark real-time data, reference data, reference prices and historical data, providing the benchmark data source on the fixed income market.

FTSE **MTS Indices** are operated by FTSE TMX Global Debt Capital Markets, in which MTS has a minority stake. They provide independent, transparent, real-time and tradable Eurozone fixed income indices, based on tradable prices from MTS. FTSE MTS indices are tracked by (and can be traded via) around 40 ETFs in addition to numerous structured products.

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