

Democratising credit

*Mark Monahan**

The sands are shifting in today's credit market. Whilst electronic trading continues to permeate US and European markets – addressing regulatory and market appetite for increased trading transparency – the most significant changes have taken place at macro level. Today, globalised financial markets are increasingly connecting a diverse network of counterparties wishing to access liquidity across borders – rather than between them. And the credit market is no exception.

Facilitating cross-border flows has already proved an effective way of addressing a number of challenges facing market participants in the credit markets, specifically the availability of executable liquidity. By connecting counterparties in the US, Europe and beyond, the market can begin to reverse a tide of liquidity fragmentation by widening the network of available counterparties – all in the pursuit of effective price discovery and execution on electronic venues. As markets continue to merge, effectively diversifying networks of counterparties, this also enhances the availability of credit

instruments, delivering greater trading opportunities to new and existing market participants.

Through MTS BondsPro, formerly Bonds.com, a live, all-to-all trading venue for US corporate and emerging market debt, we've broadened access to facilitate liquidity between US and UK markets, for a network of almost 700 buy-side and sell-side participants. The platform allows both dealer and buy-side accounts to access a centralised liquidity pool anonymously. As part of an initiative to bolster liquidity, we allow market participants to post prices on our all-to-all venue to trade for free, reducing trading costs significantly.

To evolve with market demand and enhance our emerging market offering, we have focused on ramping up our efforts in the Latin American corporate bond market as well as Eastern European names, based in London. The emerging market dealer community is already very well versed in electronic trading, in part from the use of inter-dealer electronic systems. Adding to the 13,000

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US\$-denominated corporate and financial bonds available on the platform represents a natural expansion in coverage.

A simpler access model

As new entrants – such as corporates, pension funds, hedge funds and tier 2 and 3 banks – look to access and trade in the credit markets, trading venues have focused on providing a multitude of trading functionalities, often with the intention of using a ‘catch all’ strategy, designed to cater for a wide range of participants with divergent trading strategies. This can introduce unintended consequences by complicating the on-boarding and trading process for new entrants.

Recognising this, MTS BondsPro offers simpler ways for all market participants to access and trade. The platform brings a new, more innovative option to the table by supplementing the firm’s current trading routes, rather than replacing them. This focus on simplicity has been complimented through technology investment, ensuring a healthy pipeline of product and functionality enhancements for new and existing users and ultimately ensuring quick, effective on-boarding for new market entrants.

The new HTML 5-based graphical user interface (GUI) is a prime

example of this. The technology facilitates pure web-based trading on our platform with zero software requirements, effectively reducing deployment times and condensing the trading workflow from price discovery to execution. Users can login directly via HTML 5, or to continue to trade via the industry-standard Citrix receiver.

The technology enables users to benefit not only from greater cost and time-saving efficiencies, but also lower IT expenditure at a time when buy-side technology budgets have come under increasing pressure to cut costs.

Beyond providing fast, efficient access from a technology perspective, we’ve streamlined access in other ways too. For instance, buy-side or sell-side traders can sign one contract and access a liquidity pool with almost 700 other institutions immediately.

Price discovery

Accessing ‘firm’ liquidity is key for market participants, but they also need to be able to access transparent pre-trade data. To set best practice for price discovery, verification and validation on MTS BondsPro, users see the full depth of market before they execute a trade, a key differentiator for our platform.

Market participants can access limit order book prices on

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over 13,000 US\$-denominated corporate and financial bonds every day. Pre-trade data on the platform is derived from over almost 700 buy-side and sell-side market participants and is distributed in real-time, via TRACE feed.

Trading functionality and connectivity

New and existing trading venues have often focused on developing trading functionalities and enhancements to accelerate the adoption of electronic trading. Since acquiring the platform in 2014, MTS has invested to deliver a comprehensive pipeline of features designed to improve price discovery, connectivity and execution. Most recently, this has included the introduction of new trading functionalities as part of an HTML 5 web-based trading upgrade, including recently enhanced API trading and a new GUI built to offer a customisable and a fully configurable front-end.

One of the most distinctive features in the new system is that we can colour-code orders. This differentiates between firm and non-firm liquidity by colour-coded Pink Pricing, which displays secure liquidity from participants offering a 90% fill rate, enabling users to locate reliable sources of liquidity both quickly and efficiently, whilst

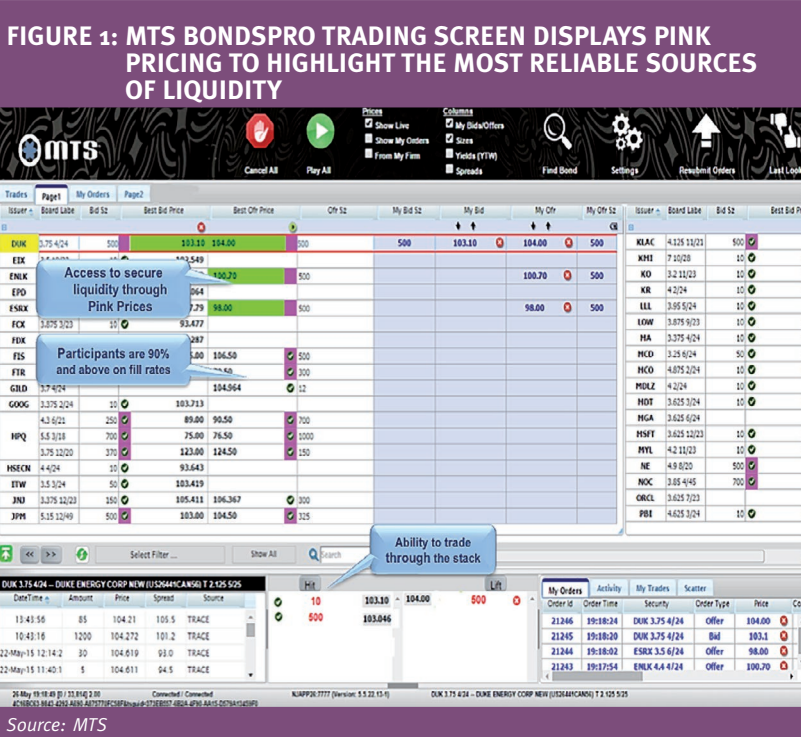
limiting the chance of not having an order filled.

These types of trading features are particularly valuable in current market conditions, when the provision of executable liquidity remains a real issue in credit markets. Tougher capital requirement rules laid down by regulators have impacted the ability of sell-side banks to act as liquidity providers, which in turn, reduces the availability of ‘firm liquidity’.

As market participants often focus on improving the time it takes to discover liquidity, we’ve also added the option to upload multiple watchlists and toggle between different views of the market, or submit hundreds of orders with a single click. It is also possible to control the range of bonds viewed on-screen by sector, ticker, coupon, maturity, size or price.

Moreover, MTS BondsPro recognises that buy-side clients have a range of on- and off-line broker relationships. As such, buy-side participants can take dealer pricing they receive elsewhere, but rather than being limited to that, if they know where they want to buy or sell bonds they can get that access here. Through our relationship with Bloomberg, we can connect clients with the Voice Confirmation (VCON) platform.

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The platform supports trade execution via an order or execution management system and delivers automated best execution reporting, which shows traders exactly where they executed in the stack. We also use the industry-standard FIX messaging framework to provide efficient access to the credit markets, whilst also reducing the cost of market entry.

API access

The buy-side community is continuing to grow in

sophistication, but with technology budgets often resource constrained, API trading has proven an efficient and cost-effective way to access the market. As a result, it is really democratising the whole trading process because it offers a huge amount of flexibility for market participants, providing a very convenient, inexpensive and practical way of accessing the credit market automatically.

Where it takes things a step further though, is that it opens up a massive extra range of trading

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opportunities. API access on MTS BondsPro has recently been enhanced on the platform.

The platform's API uses FIX 4.4 to enable market participants to create machine-to-machine interfaces that can be used for a range of trading activities, including submitting bids and offers to the trading platform, obtaining price data, hitting/lifting quotes, retrieving trade execution reports and receiving post-trade STP messages. It's worth noting that the platform's API is particularly suitable for tier 2 banks to access the market.

The FIX protocol opens the door to a wide range of trading and market making activities. MTS BondsPro requires that all participants are Qualified Institutional Buyers (as defined in Rule 144a of the US Securities Act of 1933). As a result, programming and technology resources are unlikely to be an issue for the

majority of participants. The API's use of FIX and the availability of the popular open source QuickFIX FIX engine means that it is also readily accessible by those with more modest technological budgets.

While the option to connect via API enhances connectivity options for market participants, they also benefit from integrated pre-trade price discovery, connectivity and execution, and post-trade services.

Conclusion

The onset of electronic trading, coupled with the increasingly broad nature of counterparties wishing to access this market on a global footing, has created demand for electronic trading venues to deliver a more efficient, cost-effective, but also simpler trading model. By democratising market access and trading opportunities on an all-to-all venue, MTS BondsPro is already meeting market demand for this model. ■



