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MTS BondsPro All-to-all

A panel discussion published in The DESK on behalf of MTS.

MTS™

Democratising credit

MTS BondsPro is developing simpler ways for buy- and sell-side traders to access a diverse network of counterparties in the US and UK, to match the evolving marketplace.

Mark Monahan, CEO of MTS Markets International, Amanda Meatto, Head of US Credit Sales at MTS Markets International and Andy Webb, founder of Automated Trader magazine, discuss the democratisation of the credit markets through the anonymous, all-to-all MTS BondsPro platform.

Given the increasingly fragile state of liquidity in the corporate bond market, how is MTS BondsPro meeting demand for efficient price discovery and execution?

Mark Monahan: We bring a new option to the table for trading US and emerging market corporate bonds. Our intention is to supplement firms' current trading routes rather than replace them. We provide unique liquidity in two ways; firstly we have buy-side orders entered into our system from the US, but also the UK and Europe, and secondly we have a great deal of Tier 2 and Tier 3 banks on our system who provide considerable diversity in trading patterns. They are looking for the most exposure they can at the least cost and we are a very good option for them.

How simple is it for traders to use the platform?

Mark Monahan: We have launched a new front end, an HTML 5-based graphical user interface (GUI) that facilitates pure web-based trading on the platform, with zero software requirements. After rolling out the new system, we have witnessed a spike in use over the last few weeks. One of the most distinctive new features in the system is that we can colour code orders to indicate 'firm' pricing. This enables users to locate reliable sources of liquidity both quickly and efficiently, whilst at the same time, limiting the chance of not having an order filled. However, ultimately, it comes down to trading flexibility. Clients on MTS BondsPro can trade via an order management system, an execution management system or via API.

Amanda Meatto: The system lets you input a list of the instruments that you care about so the breadth of instruments we carry doesn't seem overwhelming – the range of bonds you see can be tightly controlled by sector, ticker, coupon, maturity, size or price.

As buy-side traders become more sophisticated what have you done to match their technological advances?

Mark Monahan: We hold the technological capacity to work with any aggregator, any kind of execution or order management system (EMS/OMS) that traders have. In fact, we are already connected to the vast majority of them.

Andy Webb: The BondsPro application programming interface (API) is spot on for Tier Two banks wishing to access the market. Automated Trader conducted a technical review of it and we found it to be very straightforward. We connected using QuickFIX, the free Java-based FIX connector, so there is no need to use expensive custom software or a special set of libraries and it doesn't take very long to get the API up and running. We built a data handler in Java that let us pull data into MATLAB, then used that data to build a basic quote-response model and then used another Java

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handler to handle our trade, simulate it and submit it. Technologically it’s well suited to opening up the market – there is no tech barrier of any substance.

Is the accessibility of the model key to generating liquidity?

Mark Monahan: It is a very important point – buy-side or sell-side traders can sign one contract and access a liquidity pool with almost 700 other institutions immediately. We are the counterparty on all the trades, so the only thing they see is MTS pre-trade, trade and post-trade. If they want to access it via our new GUI there is no software connectivity, we can deliver access the same day. If they want to trade via API or an OMS/EMS, we will provide the required specs and help them get up and running quickly

Amanda Meatto: We are helping buy-side traders to change their behaviour from being reactive to being proactive. They can take the 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.

What challenges do constrained technology budgets pose for bond market participants?

Andy Webb: The buy side tends to be resource-constrained when it comes to technology. Conventional asset management firms struggle with that, so the API is really democratising the whole trading process. The huge amount of flexibility it offers is exciting on multiple levels to me as a trader. Firstly, you have a very convenient, inexpensive, practical way of accessing this particular market automatically. Where it takes things a step further though, is that it opens up a massive extra range of trading opportunities, with convertible bond arbitrage being one of many examples. If you have to ring around, spending

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ages trying to find where the market for a particular convertible is, then the opportunity disappears. If you can see firm prices, then the hardest leg of the trade is done immediately, leaving only the usually more straightforward equity element.

Can BondsPro tackle the bias amongst sell-side firms towards serving large asset managers ahead of smaller firms?

Andy Webb: It's a much more level playing field for institutions that aren't going to be top of the queue in terms of attractiveness to the sell side. The accessibility of the API is potentially introducing a lot of new business that would otherwise not exist. Beyond the very simple example of convertible arbitrage, there are numerous other possible arbitrage strategies that might have a leg in this market. You are likely to see a lot of new participants conducting new types of trading, which over time will bring new liquidity to the market.

Amanda Meatto: That will in turn break up the directionality of order flow from the buy side, with the potential to see new types of participants doing new things and therefore generating new flow. There has been a wave of new entrants into the market, many of whom are equity driven and are familiar with the way the order book works. The all-to-all model is not just buy-side to buy-side, it is very rare that a buy-side firm will get into a market and make two-way prices.

Mark Monahan: There is a convergence between the retail and institutional sector. Every day we see a significant range, with trades for over one million bonds, but also for two or three. From a BondsPro perspective, we are an odd lot platform, our average trade size is 200. For large-in-size orders it makes sense to trade over the phone and for some via RFQ. But for 300 to 400 bonds, it can be posted on an order book and worked through there. It is certainly worth noting, firms providing liquidity trade for free with us.

Does the platform integrate pre-trade and post-trade capabilities into the trading lifecycle?

Amanda Meatto: Pre-trade the user sees the full depth of market before they execute which is a differentiator for us, for connectivity via an API or OMS you get the same data. Post-trade we are set up with multiple vendors, or you can incorporate API connectivity with us. We have a great relationship with Bloomberg, we can connect with the Voice Confirmation (VCON) platform, everything is automated via email, you receive a best execution report post-trade and you can see where you executed in the stack.

How is the emerging market instrument set developing?

Amanda Meatto: The emerging market dealer community is very well versed in electronic trading in part from the use of inter-dealer electronic systems. Right now we have started ramping up our efforts in LatAm corporates specifically and in London there is also a big push for Eastern European names which is a great way to broaden our offering. ■