

Fixed Income Market Structure

Evolution or Revolution?

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REGULATION, TECHNOLOGY AND BIG DATA ARE DRIVING CONSOLIDATION WITH INNOVATION NEXT IN LINE

The electrification of the fixed income industry is well underway and rapidly approaching an inflection point. With recent headlines emphasizing the new wave of mergers and acquisitions across the industry, fixed income participants may soon face an entirely new market structure to navigate.

The fixed income market has been historically opaque due to its decentralized and fragmented nature. Although thousands of trades are reported daily, publicly available trade data fails to provide the complete picture on its own. As a result, it has been notoriously difficult for investment professionals to establish a fair market value of securities in which they wish to invest.

Initial advancements in trading fixed income securities were more evolutionary in that the market's early improvements were mostly the electrification of what had been historically executed telephonically. These changes improved accuracy, efficiency and streamlined the clearing process. However, these early operational efficiencies have recently led to more revolutionary improvements in fixed income trading. Emerging technologies have permitted traders and investors to address the opaque issues through transparent, quantitative and flexible analysis that leverages both public and proprietary data, offering improved price discovery and advanced market insights.

In combination with these technological advancements, regulation has also been a catalyst for further changes across the industry. The MSRB's and FINRA's mark-up disclosure rule, along with the now-required calculation of a PMP, have caused many to reevaluate their firm's requirements that work to support the rule and provide more precise measurements for best execution and transaction costs analysis (TCA) processes. With increased regulatory focus on fixed income trading, there has been a greater need than ever before for pre-trade data to demonstrate best execution, leading many firms to employ automated platforms that generate, capture and mine this data. This application, in both a pre-trade and post-trade context, is becoming a critical management and regulatory metric.



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CONSOLIDATION: THE NEW FIXED INCOME LANDSCAPE *THE REVOLUTION HAS BEGUN*

As technology and regulation continue to push evolution within the middle-to-back office of firms, market stakeholders are revolutionizing the fixed income industry's landscape as they continue to identify consolidation opportunities.

Some of the largest fixed income execution venues have been acquired by global data providers at significant valuations. These acquisitions point to the fact that the industry is quickly consolidating, and data is king. According to a recent MarketsMedia article, there has been over \$9 billion in fixed income acquisitions over the past year, which includes ICE's recent acquisitions of TMC Bonds and Virtu's BondPoint, IHS Markit's purchase of Ipreo, CME's purchase of NEX and LSEG's purchase of Citi YieldBook.¹

These consolidations within the industry have shifted the overall fixed income market structure and highlighted the growing importance of data as the underlying themes of this M&A activity center around data control and analysis. One result of this consolidation is that key players can increase their ability to collect, store, package and use industry participants' data through a growing number of venues and channels.

With this increased monetary value of fixed income data, market participants are quickly realizing the need for added data protection, analysis and firm-wide control.

DATA AND MARKET STRUCTURE *EVOLUTION OR REVOLUTION?*

Equity markets underwent their market structure revolution almost two decades ago, which resulted in Reg NMS. Looking at fixed income markets, we are just now at an inflection point that may be signaling the start of a similar change. With advancements in technology and an acceleration of regulation breaking down the traditional barriers, market stakeholders are facing an ever-evolving and challenging fixed income landscape.

The development of sophisticated yet intuitive tools, coupled with increased regulation and market consolidation, have created the potential for revolutionary changes and establishment of a fixed income marketplace that encompasses efficient and fair price information. As confidence is bolstered through advanced analytics, market participants will have more complete command of the data and market intelligence necessary to service and grow their fixed income businesses.

¹ Greco, Jim, "The Great Fixed Income Acquisition Spree," MarketsMedia. June 6, 2018.

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ABOUT BONDWAVE LLC

BondWave is a financial technology company specializing in fixed income solutions. We serve a wide range of customers, from small independent RIAs to some of the largest broker-dealers and custody providers in the financial services industry. Traders and advisors use our tools to provide a superior fixed income experience to their clients. By creating sophisticated, yet simple solutions for all stakeholders in the investment process, we help traders and advisors better leverage individual bonds as they work to achieve the investment objectives of their clients. Our tools enable strategy-based investing – including portfolio creation, monitoring and rebalancing – while greatly enhancing the communications between the trading desk, advisors and their clients. BondWave is liquidity and trade agnostic and our sole focus is to provide a simple, sophisticated user experience around individual bond investing.

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