

# Mark-Up Disclosure Rule Drives Fixed Income Participants to Evolve Their Technology

**Fixed income participants seek better, more precise data and new tools beyond implementation of the rule**

**By Michael Ruvo, CEO, BondWave LLC**

*May 14th marked the official implementation date of the MSRB's and FINRA's mark-up disclosure rule and the calculation of a PMP utilizing the prescribed 'waterfall' approach for fixed income securities. This implementation also marked a critical next step in the transformation and evolution of the fixed income landscape.*

In February 2016, the Financial Industry Regulatory Authority's (FINRA) board of governors approved a proposal designed to help retail customers understand and compare transaction costs in fixed income securities. The mark-up disclosure rule generally requires firms to disclose on their customer confirmations mark-ups and mark-downs, which are calculations based on the "Prevailing Market Price" (PMP) on bonds bought and sold to retail customers on the same day that they are bought and sold for the firm's own account.

Fixed income participants faced a number of hurdles gearing up for the May 14th deadline. Navigating the new regulatory requirements proved to be no small undertaking, which led many firms to seek an automated solution to ease compliance requirements. Fixed income participants that leveraged this type of solution quickly found that calculating the PMP value accurately and generating a value that truly reflects the dealer's compensation for its customer trades was only the first step in the process. The next hurdle was implementing and adequately testing their chosen solution to ensure a minimal risk of publishing varied or inaccurate numbers on customer confirmations.

Due to the bifurcated nature of liquidity and execution in the fixed income landscape, some firms took the path of least resistance and pursued solutions that were integrated with transaction workflow, while others sought more sophisticated solutions designed with an open architecture that could support integration with any execution platform. The former route presented issues with data consistency, accuracy and privacy, while the latter



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Imagine that

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presented data integration challenges in order to process the required trade data and distribute the PMP content through a plethora of execution venues, clearing firms and back-office systems.

## LOOKING AHEAD

Moving past day one of compliance, fixed income participants that chose to rely on inadequate, manual processes will be the first to find that testing, accuracy and consistency are a burdensome task. The PMP deadline has put the spotlight on a much broader problem that has plagued the fixed income market for decades, which is the reliance on stagnate tools and manual processes.

Over the last 20 years, we have seen that even the smallest equity investors have enjoyed a level of transparency, information flow, market intelligence and trade execution, which has proven to be absent from bond markets. Online retailer Amazon is possibly the best analogy to describe this transformation. Bond investors have essentially been shopping as if there were no internet in a largely technology-driven society. In this analogy, bond investors must resort to calling individual stores in order to see what inventory is available, rather than utilizing a service that could make the process much simpler. With this underutilization of technology, it's difficult for these investors to then determine best pricing on a bond since a trader, advisor or investor can only see a small portion of the available inventory at a single time. On top of this hurdle, pricing data still lacks a purely quantitative approach.

However, bond investors now have the option to shop (research) for bonds in much the same way any consumer uses Amazon. Just as consumers can shop for shoes, or anything else for that matter, bond investors can likewise see the broad universe of bonds, real-time pricing and enjoy access to a host of other valuable data sets and tools. Fixed income market participants must take advantage of this regulation by leveraging a new wave of solutions and precision tools that are equipped to support the growth of the business and better serve clients.

As we have seen with the PMP solution adoption, the evolution is now underway in bond markets and is only showing signs of acceleration as we approach the second half of 2018. In a rising interest rate environment, increased access to better technology and data, along with regulatory and market structure changes combined with the growing need amongst market participants for greater efficiencies, will fuel the growth in individual bond investing. The evolution of sophisticated yet intuitive tools and increased transparency should result in increased investor confidence. These advancements will not only lead to greater operational efficiency and advanced insights but will also help drive the growth of fixed income investing amongst a new and existing audience of traders, advisors and investors.

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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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