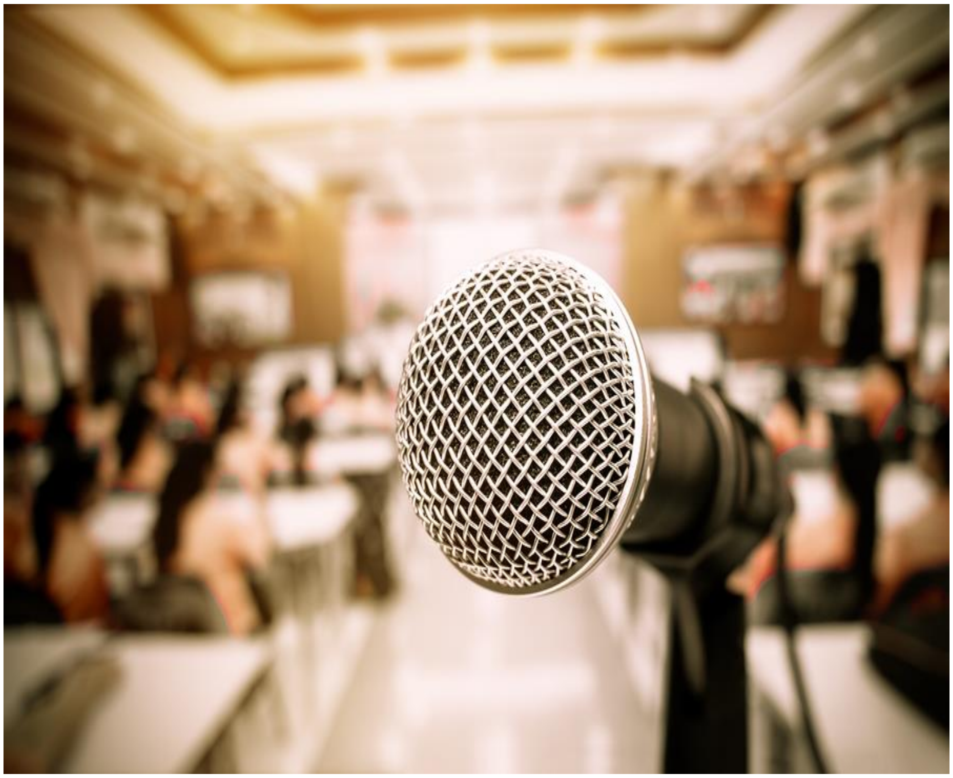

A VIEW FROM THE PODIUM:

TAKEAWAYS FROM THE 2018 FIXED INCOME LEADERS SUMMIT (BOSTON)

It is always a pleasure to moderate some of the excellent panels at the Fixed Income Leaders Summit, and this year was no exception. Moderating means that I assume the role of a conscientious observer in the debate on fixed income market structure instead of participating in the discussion. Listening carefully without the intent to reply is the best way to understand the direct and indirect insights generated from the group conversation. Here are a few of my personal takeaways from the 2018 US Fixed Income Leaders Summit:

VIABLE MKTS

June 2018

What were the key takeaways from the FILS Conference?

What critical topic needed more focus?

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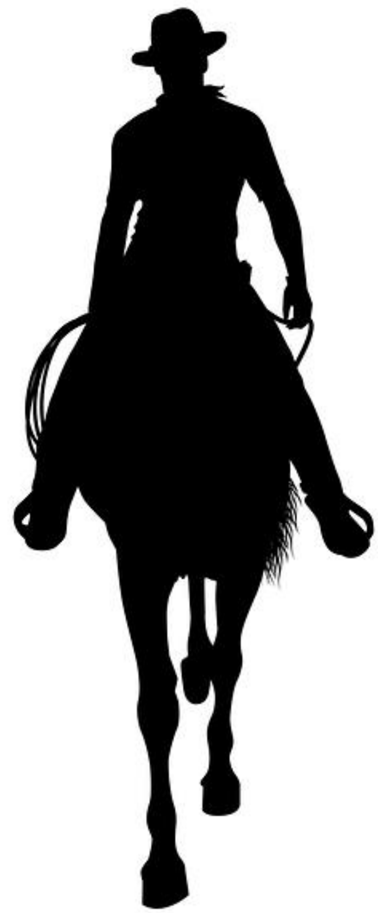
There's a New Sheriff in Town



For years the FILS conference has been dominated by discussions on electronic trading, but this year market data has taken the lead as the priority industry topic. This is quite a dramatic shift when you consider that the 2015 FILS Agenda had six panels with an electronic trading focus, but not a single panel on anything even remotely related to market data.

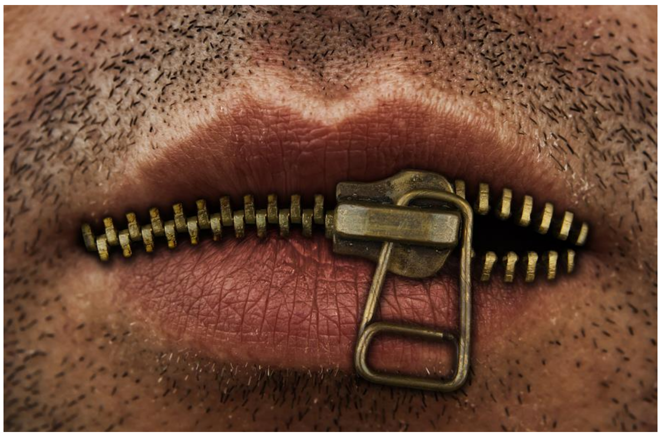
Why?

Data has moved to the forefront due to a combination of innovation and regulation. Initiatives like Algomi/Alfa are highlighting the potential benefits of data aggregation for buy-side institutions. Meanwhile, the FIMSAC proposal to delay corporate bond trade reporting in conjunction with the FINRA proposal to establish trade reporting in treasuries has the entire market confused. Does timely reporting of transaction data hurt or help market liquidity?

In contrast, electronic trading promised to significantly improve the market by enhancing liquidity through the networking of market participants. While some changes have occurred in the last few years, the pitch has not come close to reality. This does not mean that electronic trading solutions are not valuable, rather, this is just an illustration of how long it takes for any new execution platform to make a meaningful impact.

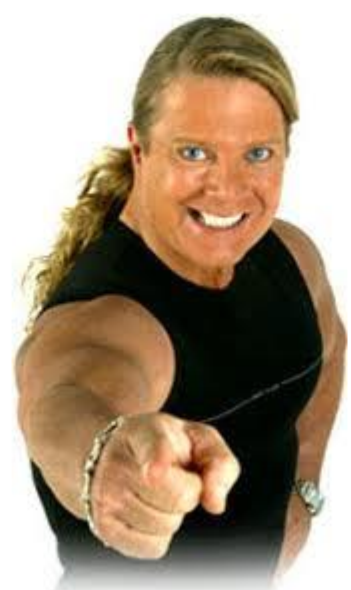
Lack of Dealer Voices

Despite the acknowledgment that dealer relationships still matter for fixed-income trading, a recurring theme at the Fixed Income Leaders event and other industry conferences is the conspicuous absence of sell-side institutions. Discussions on the future of liquidity often don't include liquidity providers. Debates about market data often don't include the price providers. Instead, buy-side firms and vendors are the only voices articulating the vision of where the market is headed. This makes for a one-sided conversation that is not reliable for predicting future outcomes. If we want to make meaningful progress in the development of fixed income markets, dealers must be at the table. Without them, the discussions can often resemble infomercials.



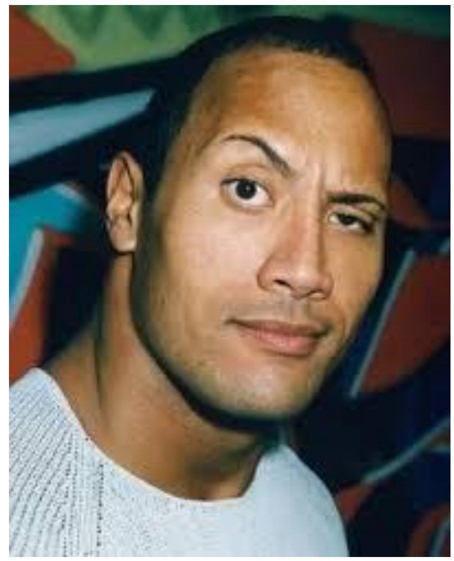
Why?

Dealers are caught between a rock and a hard place. Disagreeing with your major customers in public is not good. Nodding along to proposals and ideas that could be detrimental to your bottom-line could be viewed as a tacit endorsement. Loudly promoting a dealer-driven solution can look and feel like collusive activity. Given the options, silence may be bliss for the dealers.



Most Eyebrow-Raising Statement

"Blocks are best traded in comp"



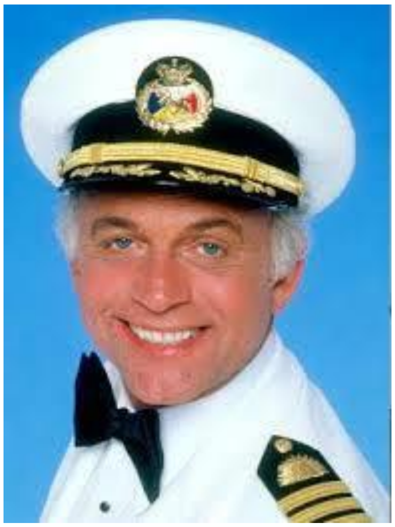
I'm slightly paraphrasing here, but this was the spirit of a comment made during a panel on market liquidity. The statement came from a representative of a major trading platform, not an actual trader. While there is definitely a time and a place for maximizing in-comp trading through an electronic platform, there is nothing that suggests this is a sound approach for trading large blocks. Nothing. Not just in the corporate bond market. None of the other financial markets have adopted an electronic, in-comp process for block trading.

Why (is this eyebrow raising)?

One of the few areas that has 100% agreement between the buy-side and the sell-side is that block trading is best accomplished through bi-lateral negotiations. Both the liquidity taker and provider are incentivized to minimize information leakage to prevent adverse market impact. The comment to trade blocks in-comp is so surprising because it does not represent the best interests of market participants.

Captain Obvious Award

Dealers are at a massive market data disadvantage



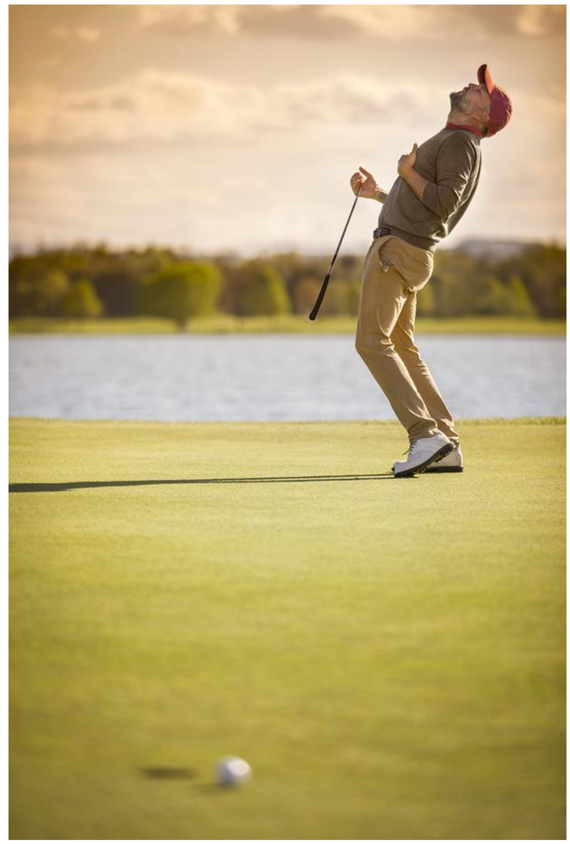
A panel discussing transparency and market data illustrated the wide gap between the buy-side and sell-side when it comes to corporate bond data. Buy-side representatives talked about how they are using the massive amounts of data they are receiving to create complex, granular dealer performance metrics. Meanwhile, it was clear that sell-side firms had nowhere near that level of capability.

Why?

This is a simple matter of data access. While pre-trade data quality may be poor, buy-side institutions have ample access to the information and are taking steps to glean insights that help with trading and counter-party selection. In contrast, dealers do not have access to the same aggregated, pre-trade pricing information as the buy-side, so they are unable to leverage transparency to improve their market-making business performance.

Biggest Missed Opportunity

Given the quantity and quality of buy-side institutions that attend the conference, there needed to be more than one panel on primary market innovation. The new issue process is critical to the overall US corporate bond ecosystem and is ripe for transformation. This potential has been recently acknowledged by the acquisition of IPREO by IHS Markit and the announcement that US dealers are building a syndicate platform. Hearing more buy-side opinions on how technology can improve primary markets would have been valuable for predicting which platforms are best positioned to establish their solution.



Why?

There are ample opinions regarding the current and potential future state of primary markets, but people are reluctant to go on the record. This fear of speaking out is reminiscent of the early days of electronic trading in the corporate bond market. Despite the obvious benefits that eTrading solutions could deliver, most market participants remained quiet for fear their statements could be interpreted as being anti-dealer. Perhaps the same factors are at play here, but once the market realizes that embracing technology does not directly equate to replacing human beings, there may be a livelier discussion.