



VOICED OPPOSITION: THE FUTURE OF VOICE TRADING IN FIXED INCOME MARKETS

In the frontier of financial market innovation, there are areas of fixed income markets that are still believed to be “undiscovered” by modern technology. Some fixed income products exist in the same futuristic world of order-books and algo-trading as equities and FX, while other products have taken a different evolutionary path where there is less emphasis on electronic trading. Many new fixed income platforms are designed to tame these heathen markets by bringing them into the light of electronic trading:

[New Bond Platform LTX Takes Digital Aim at Traders on Phones](#)

“LTX is targeting roughly 75% of the bond market that still changes hands over the phone, as well as larger transactions that are difficult to trade electronically”

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Is electronic trading the only path for fixed income?

How can voice technology enhance trading?

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Voices Carry

The problem with this approach is that it positions voice trading as a problem that needs a solution. This assumption never considers the alternative, that voice is essential for complex trading and a permanent fixture of idiosyncratic markets like certain areas of fixed income. Depending on your perspective on this topic, **voice trading technology could present the largest opportunity for advancement in fixed income markets.**



In any market, depending on the product, the spectrum of the trading process can range from extremely simplistic to extraordinarily complex. As we have seen over and over, electronic trading is a wonderful tool for improving the process for simplistic transactions. The speed and cost efficiencies generated by electronic trading also open the door for automation and algorithmic solutions which spawn greater productivity. Given this potential, **it is understandable that baptizing all fixed income, or at least the remaining 75% of the corporate bond market, in the waters of e-trading would be a logical goal. However, is it a plausible solution for complex transactions?**

Complex transactions are characterized by infrequency of trading. The less something is traded, the harder it is to trade because critical pieces of information are missing: When did it last trade? Who would be interested in being the other side? What is the market price? In the absence of these inputs, human judgement is essential to completing complex transactions. Attempts to replicate or replace voice in complex markets have been attempted multiple times with little to no success. Perhaps this is because the voice process itself is organized randomness:

“Human behavior isn’t a black box, and there’s a method to our madness, even if our understanding of that method needs updating from time to time.” -Andrew Lo

Talk Isn't Cheap

Instead of trying to abolish voice trading, buy-side and sell-side institutions in fixed income can differentiate themselves by augmenting their voice technology.

Voice trading on Wall St evokes an image of rotary phones, accompanied by yelling and ashtrays with lit cigarettes on the trading desk. While the screaming and smoking has all but vanished from fixed income trading floors, voice technology has dramatically advanced. Fixed lines and wired handsets have been replaced with the internet (VOIP) and wireless headsets. Despite the improvements in infrastructure, there are still some fundamental problems with voice service that may be responsible for its negative reputation:



Inefficient Connectivity

Chat, LinkedIn, Facebook are communication tools with a key feature that voice is missing, a directory. Reliably connecting with exactly who you are targeting across a verified network is needed to improve the efficiency of voice for fixed income trading.

Cumbersome

Telephonic communication has never been properly integrated into trading technology. While speed dial functionality is helpful, the act of looking someone's number up and entering it into a phone can disrupt trading workflow.

No Data Capture

The value of data is growing in fixed income markets, but voice activity is defined by a loss of information. Without a full-time stenographer participating on every call, invaluable content drifts into the ether.

The areas for improvement in voice service are clear. Major enhancements to networking, workflow efficiency, and intelligence/data retention could prove to be transformational for buy-side and sell-side fixed income institutions. Instead of digitizing a complex trading process in a search for greater performance and efficiency, augment the technology for a proven protocol that has worked since the dawn of time. Getting voice service right could be the path to differentiation in a market that often focuses on "me too" solutions.



Lift Ev'ry Voice and Sing

A potential first step toward optimizing voice for fixed income trading is evaluating your current voice technology across this framework of requirements:

1) Increase Cost Efficiency

Recent events of 2020 highlight the importance of flexibility with regards to voice technology. Remote working and virtual trading desks caused many people to rely on their personal mobile phones to trade. This has created significant compliance and regulatory liabilities:

With the mandate to work remotely, there are some inherent issues around compliance. With all the compliance rules and voice recording software mandated by regulators, it is difficult to police human behavior when traders are working off of a central trading desk. For example, traders are not supposed to use a mobile phone on the trading desk, but this is challenging to enforce at home.

[Is Remote Trading Leading to a Paradigm Shift on the Trading Desk?](#) – Traders Magazine

The ability to port and scale a secure voice network is now a requirement for all financial market institutions. Your firm's voice service must work anywhere, any place and on any device without materially increasing costs.

2) Improve Business Performance

In finance, the technology projects that get the most attention and resources are the ones deemed "revenue generating" and therefore essential to improving business performance. Voice technology has two different areas with material opportunities in fixed income markets, workflow integration and data capture.

- A voice service that is interoperable with internal technology and commercial applications can reduce disintermediation and accelerate trading between fixed income clients and dealers. For example, if posted markets came with a push-button voice engagement option, dealers would receive more bi-lateral order flow from clients.
- Leveraging voice-generated data requires technology that adequately captures, re-formats and organizes voice information. Once in place, this invaluable data can be used to accurately track and record customer inquiries, which is critical to enhancing market making performance.



3) Facilitate Innovation

Improving voice technology becomes more valuable if the service can be leveraged to implement new solutions that accelerate business performance and efficiency. The two areas for innovation are voice assistance and network development.

- The benefits of algorithms are not just realized through electronic trading. Outside of finance, voice bots are becoming mainstream tools for assisting human beings. By applying this technology to fixed income, traders, portfolio managers and salespeople consistently remain informed and prepared. “Siri, can you tell me which of my clients have inquired about MSFT bonds in the last 3 weeks?” On demand and efficient access to high-value proprietary information is what differentiates performance in all markets.
- The value of a network is determined by access and exclusivity. Who you can engage is an obvious metric, but restricting who can engage you is also important for elevating the utility of a network. Voice technology must be configurable so that institutions can build their own proprietary networks for communication. Proper configuration strengthens relationships in fixed income markets and reduces leakage of sensitive information.



Hopefully, there will be a more balanced discussion around financial market innovation in the future. Despite the propaganda from electronic trading platforms, the mere presence of voice trading is not a distress signal for implementing electronic trading solutions. Voice has a long-term role in well-functioning fixed income market ecosystems, but its impact and usefulness to dealers and clients will be determined by their development and use of voice technology.



A final consideration in the discussion around voice and electronic trading in financial structure is market stability. While the benefits of fully automated, electronic markets are consistently lauded, the unintended negative consequences are also important. History shows us that there is a tipping point to automated trading where broad adoption combined with certain market conditions can cause meaningful disruptions. Electronic trading algos were at the heart of the Crash of '87, as well as recent Flash Crashes or Rallies in equities, Treasuries, FX and crypto markets. These problems would not have surfaced if voice trading has been more prevalent. The fact is, any fixed income market that is pushed into a fully electronic and automated state is also being pushed towards a potential

‘Judgement Day’ scenario where the machines become self-aware and turn on the humans.