ARE YOU (USER) EXPERIENCED?

FIXED INCOME MARKET EVOLUTION REQUIRES AN EVOLVED DESKTOP

"You have to give people something to dream on"
-Jimmy Hendrix

To the untrained eye, the pace of change in Fixed Income Fintech appears to be moving at a glacial pace. On the surface, unstructured fixed income markets for products like bonds or derivatives remain frozen. The bond exchange that was promised several years ago never gained traction and despite the media coverage, blockchain solutions in fixed income are in the distant horizon. However, there is movement occurring beneath the surface. FIX API connectivity is starting to break the ice shelf in fixed income and push a wave of new trading platforms and data & analytic solutions into the market. Today, it has never been easier for fixed income solution providers to connect to end-users, but user adoption remains elusive because of a fundamental issue.

VIABLE MKTS

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Why the adoption of new solutions remains elusive

The key delivering a better fixed income user experience

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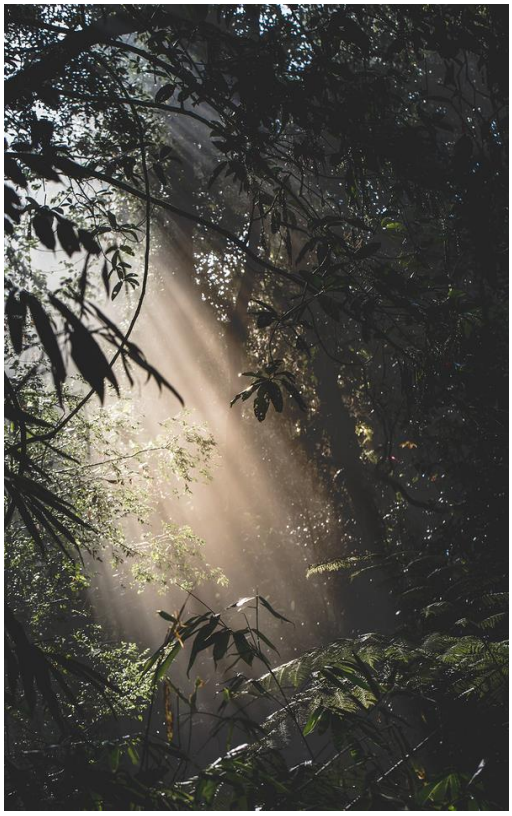
“Castles made of sand, fall into the (OMS), eventually”



Like saplings competing for rays of precious sunlight, financial technology vendors are used to jockeying for desktop space with rivals. Technologically advanced financial markets like equities and FX have resolved desktop overcrowding by using a “single application” approach. Through the utilization of APIs, execution venues, and market data & analytics providers are integrated into order management systems (OMS) and execution management systems (EMS) to facilitate a seamless user-experience. As a result, end users in equity and FX markets access a suite of connected tools and solutions through one application. Currently, fixed income markets have the similar API capabilities to equities and FX markets, but the effort to deliver an integrated user-experience through a single application is not producing material results. Gradually, some vendors and financial institutions are beginning to realize that **the fixed income market may be ill suited for the “single application” approach.**

To understand why the single application approach is not working in fixed income, we must examine why it is working in equities and FX. The standardized nature of equities and FX products has bred markets where order-books dominate. Under this structure, execution venues, and the APIs that represent them, are almost indistinguishable from each other. **Therefore, building a single application with a common interface that allows the end-user to access multiple equity or FX trading platforms is achievable**. For execution venues in these markets, getting to the end-user is simply a matter of connecting to their front-end. This environment has ultimately led to a highly competitive (and fragmented) landscape of electronic liquidity pools.

“You Make Me Wanna Get Up and Scream”

Fixed income markets are characterized by a broad, comprehensive universe of non-standard products, so the “single application” path for desktop development is a monumental challenge. The ecosystem contains numerous trading platforms, data formats, and analytical tools that have different features and protocols. So, despite the availability of APIs, a key question remains: **How can a single application in fixed income deliver a cohesive user experience that also supports a wide range of trading protocols and functionality?**

Despite best efforts, OMS providers have not been able to solve the user-experience problem in fixed income because doing so would require building new front end functionality for each API integrated tool or solution. This would incrementally morph any application into the front-end version of Godzilla, slow, cumbersome, and potentially destructive.

The limited utility of APIs is also having a profound impact on the evolution of fixed income markets. New fixed income vendor solutions have difficulty gaining traction even if they can offer better functionality at a lower price. This is in stark contrast to the competitive environment we see in equities and FX.

Finally, **this technology conundrum is the core reason that the Bloomberg Terminal continues to maintain its dominance in fixed income markets.** Despite being over 30 years old, Bloomberg is the de-facto operating system for fixed income market participants, so their user-experience is entirely framed by Bloomberg and they are most familiar with Bloomberg tools and solutions.

“You’ve got to be all mine, all mine”

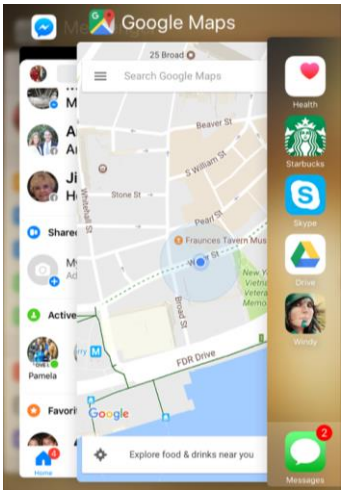
Bloomberg has been a blessing and a curse to fixed income markets because while it has created an all-powerful tool for communicating, analyzing data, accessing news, and trading, it has slowed the pace of innovation. Imagine if the free world could only use the Microsoft operating system (Windows) and Microsoft solutions: Email (Hotmail), Browser (Explorer), music player (Zune), etc. This is great for Microsoft of course, but the lack of a competitive environment for technology solutions would undoubtedly slow progress and force people to compromise on functionality.

In addition, Bloomberg’s position as an operating system creates conflicts with vendor applications that deem Bloomberg to be a competitor. A classic example is the well-known lack of coordination between the Bloomberg TOMS platform (Trade Order Management System) and the dominant fixed income RFQ platforms. Despite the army of dealers that use TOMS as a fixed income trading tool, the dominant fixed income RFQ platforms are not accessible through the TOMS interface. This is clearly not a technology issue because Bloomberg TOMS does facilitate access to multiple fixed income ATS platforms, so the absence of corporate bond or treasury RFQs from the other major providers is most likely a justifiable strategic decision by the rival platforms. Unfortunately, this deadlock forces TOMS users to switch back and forth from multiple trading systems like a trading platform DJ.

“There must be some kind of way out of here”

For fixed income market participants, the way out of this technology gridlock is to take an alternative route to developing the ideal user-experience. Instead of connecting multiple solutions into a single application (Godzilla), employ an operating layer that will allow end users to seamlessly access multiple applications. **Through the operating layer approach, a financial institution can create a common interface that delivers best-in-class tools and solutions.** Done properly, end-users form their own powerful desktop experience by combining different applications (Voltron).

Current smart phone technology clearly articulates the benefits of an operating layer approach to creating an ideal user-experience. Access to thousands of applications is only helpful if you have the operating layer (Android, iOS) that facilitates seamless user navigation from one app to the next.



Even **more important than providing a superior user-experience, operating layers positively impact the competitive dynamics for innovation.** As Apple found out a few years ago, operating system providers must be open and cannot prevent their users from accessing valuable applications, even if those apps are a competitive threat to the OS provider. For fixed income markets, this type of environment would have a profound impact on the pace and quality of innovation. Without this change, many of the new fixed income solutions may quickly become unused desktop icons.