

BUYSIDE TRADING SNAPSHOT

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Market dislocation and global regulations are having an important and lasting impact on fixed income market structure

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operate. The overriding goal of both the Dodd-Frank Act and MiFID/MiFIR is to create more open, transparent and competitive markets for trading OTC products. This will result in a shift towards greater electronic trading in many OTC markets. Increased capital requirements from Basel III will affect the way that dealers are able to manage their risk, and the Volcker rule

of California, Berkeley, has shown that trading costs decrease significantly as the number of dealer responses increases. With access to a network of 80 market-making dealers on MarketAxess, investors can address some of the challenges of market dislocation and benefit from meaningful transaction cost savings in the corporate bond markets.

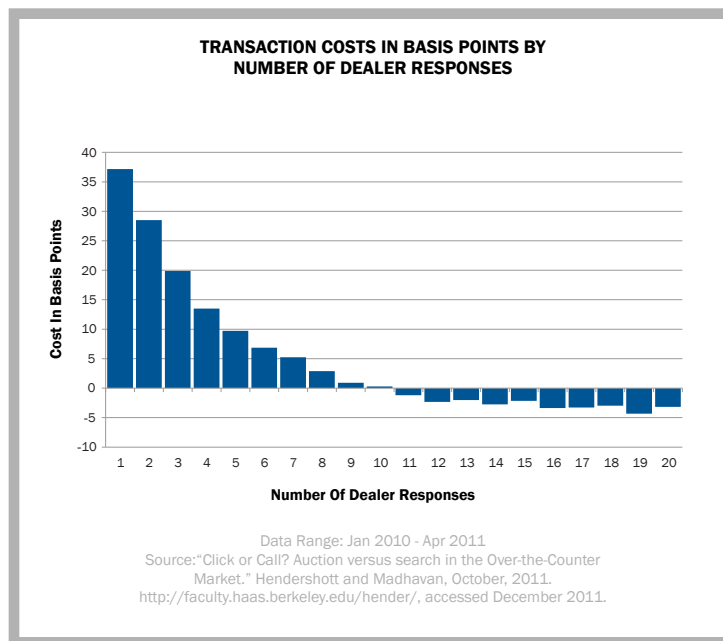
for the markets, these parameters should be set so that transparency is not damaging to liquidity. For example in less liquid markets, such as credit, participants are not generally prepared to publish pre-trade information on larger trade sizes or to make pre-trade prices fully executable. It is important that transparency requirements are carefully calibrated to the characteristics of each asset class.

WHAT IMPACT HAVE RECENT MARKET CONDITIONS HAD ON THE CORPORATE BOND MARKETS?

Following a two-year period of generally favorable conditions, the credit market environment deteriorated in the latter part of 2011. European sovereign debt concerns and weakness in the financial sector led to an increase in credit spreads and credit spread volatility. These trends, alongside other factors such as the ongoing global regulatory changes, have put greater pressure on the ability of dealers to manage their risk. Primary dealer balance sheets for corporate bond market-making finished the year below the credit crisis lows and over 80% below pre-crisis levels. In the US, where FINRA's TRACE (Trade Reporting and Compliance Engine) data offers more visibility into the corporate bond markets, a further notable trend over the course of 2011 was a decline in the number of block trades as a proportion of the overall market, which suggests that clients were assuming greater amounts of execution risk and splitting up large orders into smaller sizes in order to get trades done.

HOW WILL REGULATION REDEFINE THE FIXED INCOME MARKETPLACE?

A number of significant global regulations are currently at various stages of drafting and implementation. While it's too early to know precisely what the final outcome of these will be, we can predict certain likely changes in the way over-the-counter (OTC) markets



in the US, as it is currently written, may also require dealers to fundamentally change the way they make markets, particularly in less liquid products such as corporate bonds.

HOW DOES ELECTRONIC TRADING HELP ADDRESS THESE ISSUES?

In light of these trends, investors are responding by seeking liquidity from new and alternative sources through electronic trading. Electronic platforms enable clients to efficiently reach a greater number of counterparties for more efficient price discovery. Independent research by the University

HOW WILL PROPOSED TRANSPARENCY REQUIREMENTS UNDER MiFID/MiFIR AFFECT BUY-SIDE TRADERS?

A key component of MiFID/MiFIR is to bring greater transparency to the OTC markets. Although the right level of transparency is generally positive

In order to support better post-trade transparency in the European fixed income markets, there are plans to implement a consolidated tape for reporting industry-wide trade volumes. In the US, the advent of FINRA's TRACE reporting in 2002 brought significantly more transparency to the corporate bond markets and increased competition from a wider pool of market participants, ultimately reducing the cost of trading. We believe that TRACE can serve as a good model for a consolidated trade tape in the European OTC markets.

WHAT CAN BUY-SIDE INVESTORS DO TO STAY AHEAD OF THE CURVE?

Even well ahead of any rule finalization many firms are trading an increasing portion of their cash and derivative credit instruments on electronic platforms today. Buy-side firms can realize the benefits of increased efficiencies, transparency and demonstrable cost savings through electronic trading in the fixed income markets.



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