THE DESK

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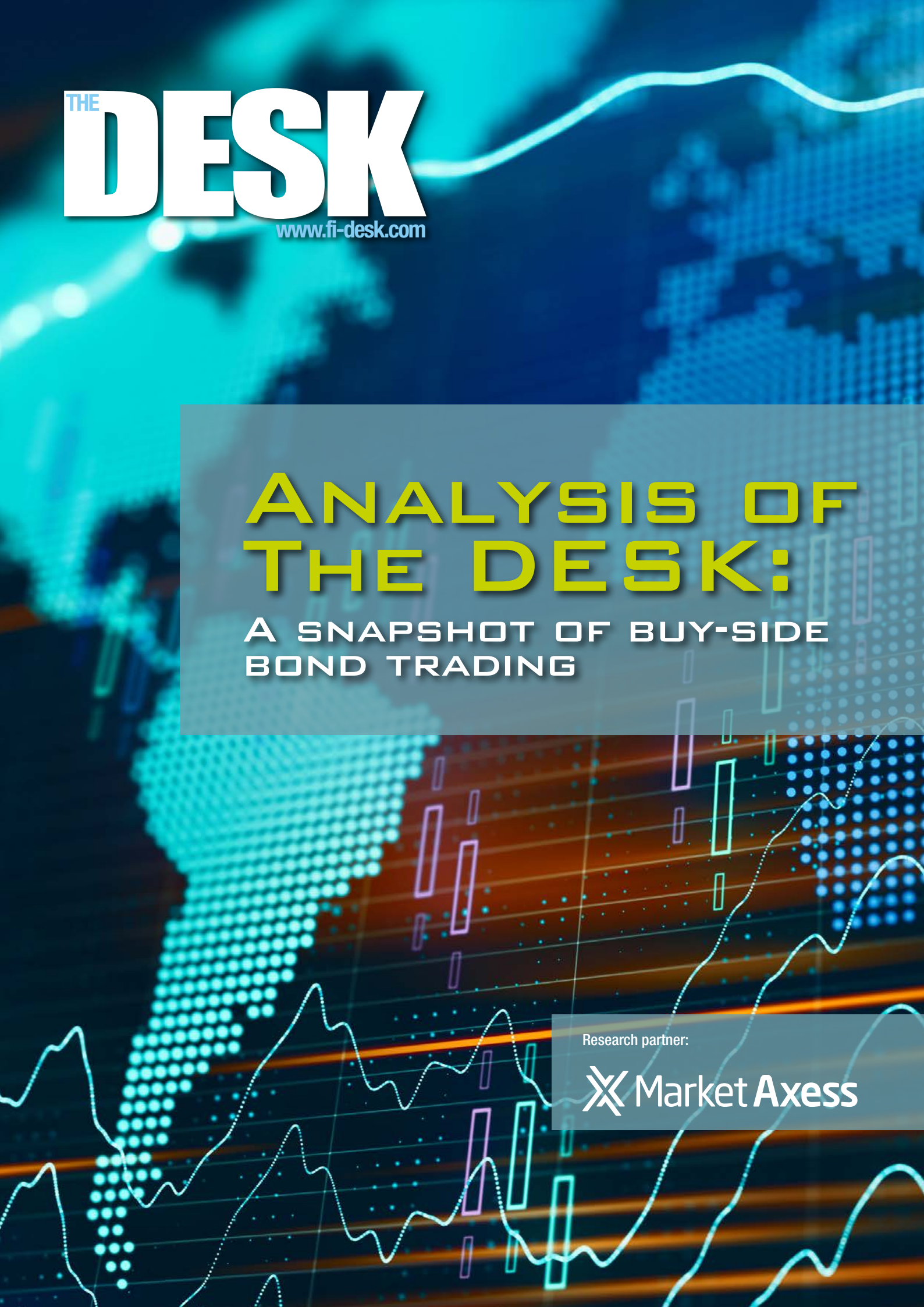
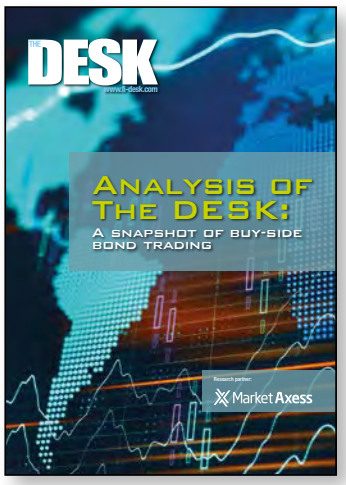
# Analysis of The DESK:

## A snapshot of buy-side bond trading



Research partner:

MarketAxess




# Foreword


Dan Barnes

The DESK's inaugural research report is a snapshot of the buy-side fixed income trading desk. Based on our primary research into the tools, platforms, services and goals that investment traders have, we are capturing activity on the buy side at a moment of great change in the industry.

The pace of bond trading electronification changed a decade ago, as a new generation of bond platforms were launched by brokers. These fell by the wayside a couple of years later, and platforms such as MarketAxess and Tradeweb began to expand their footprints. A second generation of new platforms launched in 2014 with Trumid and Algomi trying to deliver new ways of working.

The DESK launched that year, and conducted our first research, the Trading Intentions Survey, in January 2015 to capture market sentiment and current use of these tools.

Our core purpose is to help buy-side traders understand what and how they can use services to deliver better execution on behalf of investors. We would like to thank those traders who give us their time to support this research.

Dan Barnes,
Managing editor

## IN THIS ISSUE



## The DESK Research Report January 2022

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# Introduction from MarketAxess, Research Partner

The last decade in corporate bond markets has been one of continuous improvement – market efficiency, accessibility and liquidity have all increased in leaps and bounds since 2011. This report, which we are delighted to sponsor, captures the fundamentals of the changes in trading and execution that are driving these markets forward.

Both the technologies supporting trading activity, and the behaviours of the desks undertaking it, are evolving at pace, and I believe we will see that even more clearly in the coming year. For there is clearly still a lot of runway for invention and innovation in corporate bond trading. The facts and figures in this report bear that out.

Data & analytics will be key to where we go next. It is no surprise that clients expect their use of pre-trade data, in particular, to increase. We have seen that first-hand in the increase in use of both Axess All, our European real-time intraday trade data offering, and CP+, our pricing & pre-trade analytics engine. If volatility picks up as expected in early 2022, no doubt this trend will continue.

All-to-all continues to be one of the key protocols used by both passive and active portfolios, alongside traditional RFQ. And of course, the headline driver of 2021, portfolio trading, continues to grow. While still a small proportion of overall market volume, we see that expanding further in 2022, and have enhanced our own portfolio trading offering to help clients accordingly.

The expansion of trading platforms into new markets, such as in local emerging markets, has also clearly helped to drive further adoption of electronic trading. Nowhere has this been more evident than with China, where BondConnect connectivity schemes across both our platform and those of our peers are seeing increased trading volumes heading into 2022. We expect this to continue, as we expect wider EM local markets volume – at record levels across the MarketAxess platform in 2021 – to also increase. The further development of all-to-all trading choices for these markets will accelerate the trend.

The last couple of years brought excitement to corporate bond markets in ways that weren't always welcome. But there is no doubt that there have been many positives, from deeper electronic liquidity and broader access to data, to greater execution protocol diversity and efficiency. In 2021, we were found to be the most effective platform for finding liquidity. The competition, though, is fierce. And that heralds greater benefits for all our clients: the contest is quite clearly driving increased innovation and experimentation across the trading & investment workflow.

Sitting alongside our traditional peers, new market entrants and, importantly, our clients, we are excited to be spearheading an exciting and, of course, electronic future for corporate bond trading.

I hope you enjoy the report.

*Christophe Roupie*

# Analysis of The DESK

## A year's complete research into buy-side bond trading

Globally outstanding corporate debt market was estimated at US$123.5 trillion by the end of 2020, compared to US$105.8 trillion of equity market capitalisation, yet the exchange of debt securities in the primary and secondary markets is far less efficient than in equity markets.

If capital markets exist to support capital provision on one side, and the investment of capital on the other, the structure in between has a material impact on the efficiency of that process.

The corporate bond market has been undergoing a significant change in its structure since 2012. Each wave brings winners and losers amongst the enablers of change – trading venues, data and analytics providers, execution and order management system (E/OMS) suppliers.

Each year The DESK conducts research into buy-side fixed income trading desk activity, globally. We ask asset managers where they trade bonds, how they trade, what they use to execute orders and how they measure best execution.

Our research captures up to 60 buy-side firms for each survey, across Europe, the US and Asia Pacific. In 2021 we ran a survey each quarter on a different topic, and the results are compiled in this report.

Our first survey found that in corporate bond markets the large electronic trading venues (Chapter 1) are cementing their lead, concentrating electronic trading liquidity, while the success of pre-trade data sources is largely contingent upon an association with trading venues. The most commonly used venues – Bloomberg (90%), MarketAxess (81%) and Tradeweb (78%) – also represent the most commonly used sources of pre-trade data (90%/66%/59%).

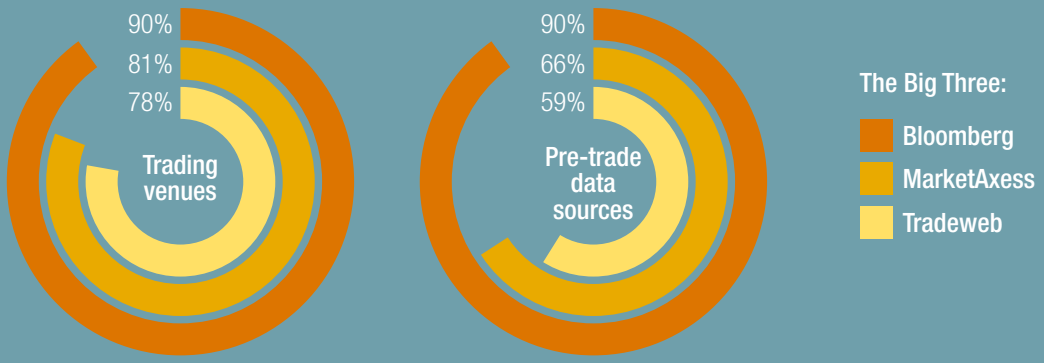
The trading protocols (Chapter 2) being favoured by corporate bond traders have become more focused on non-comp trading in 2021. Portfolio trading in competition represents an average of 14% of trading for the passive portfolios at firms with over US$500 billion in AUM, and 9% for their active portfolios, but is used less by smaller firms.

While all investment managers surveyed (Chapter 3) used an order management system (OMS) just over half of managers (54%) used an execution management system (EMS). We found that made a material difference to their ability to execute order into the market however, with a 36 percentage point improvement to external order routing, and a 25 percentage point improvement in connectivity to trading venues. Yet there are concerns around many areas of functionality which still need improvement.

Assessment of execution analysis (EA) and transaction cost analysis (TCA) tools (Chapter 4) found fewer than half of buy-side bond traders use execution analytics in the trading workflow to support trade execution, but 60% believe it is effective or highly effective in the role, suggesting there is an opportunity for real improvement in trading by expanding its use. ■

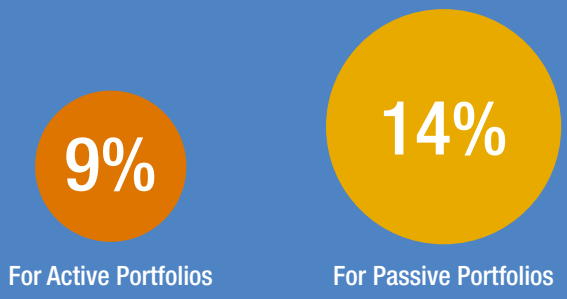
CHAPTER 1

## MOST POPULAR PLATFORMS BY USE




CHAPTER 2

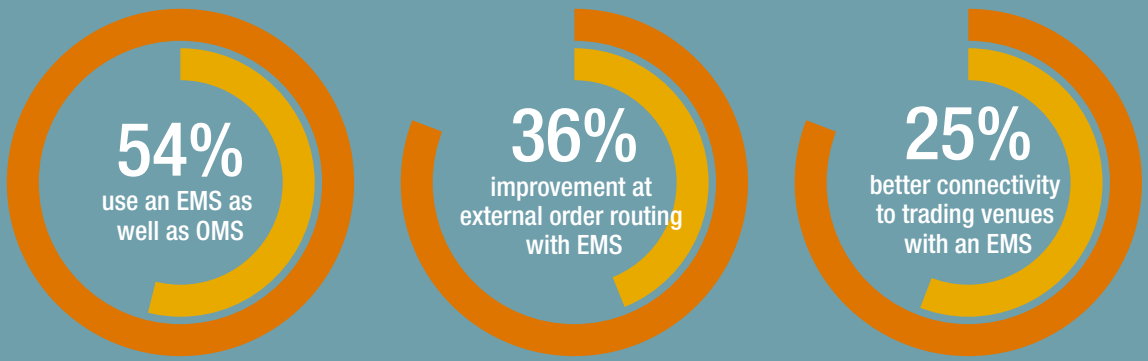
## HOW FIRMS USE TRADING PROTOCOLS




Proportion of execution via portfolio trading for large firms (>$500bn)

CHAPTER 3

## FIXED INCOME E/OMS USE




CHAPTER 4

## FIXED INCOME TCA

# Which tools do corporate bond traders use pre-trade and at-trade?

Sample size: Fifty nine asset management firms

## Pre-trade data and analytics

On average four pre-trade data sources are used by respondents, with Bloomberg data being the most commonly used (Fig 1), with over 90% of asset managers using it and 41% considering themselves major users. MarketAxess and Tradeweb were the second and third most commonly used pre-trade data sources, followed by Streamed prices from dealers.

Use of pre-trade data sources increased by five or more percentage points on 2020 with the exception of streamed prices by dealers, whose use fell by ten percentage points since last year, as did the number of investment traders who considered themselves 'major users' of streamed dealer prices for pre-trade.

Neptune, as the most commonly used standalone pre-trade data source i.e. being unconnected to a trading venue, saw its overall user base increase by seven percentage points. Both ICE (15% of respondents) and TP ICAP (10% of respondents) ranked highly this year having not charted in 2020. Truequote's internal crossing tool Crosstrade tool has seen a slight drop in users but still has a 10% market share.

Looking at the pipeline for new business

**Fig 1: Pre-trade data sources for corporate bond trading**

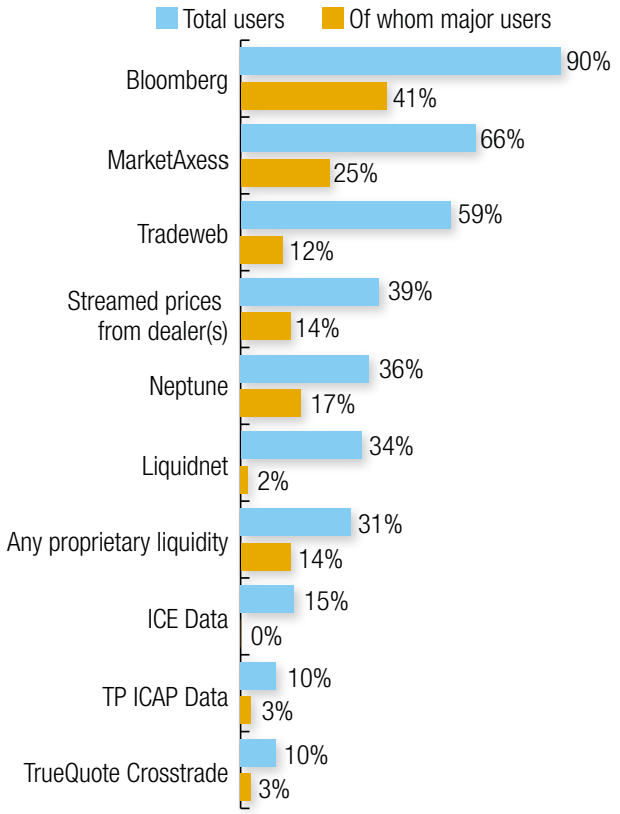
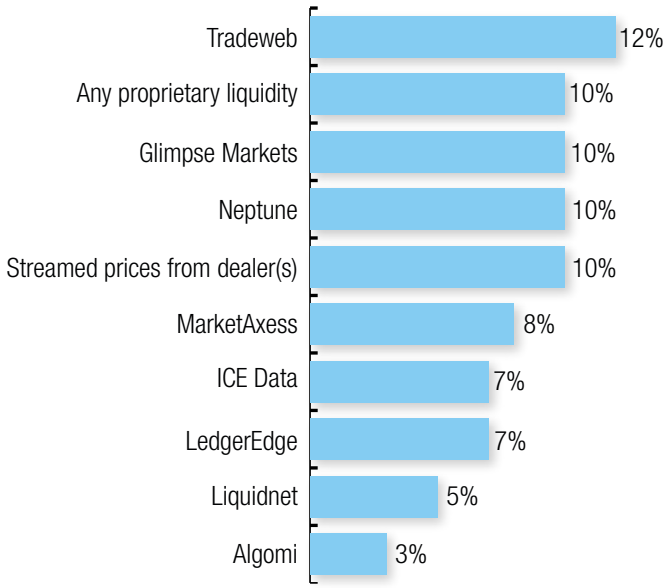



**Fig 2: Planned use of pre-trade data sources**



(Fig 2), Tradeweb is looking strong with 12% of respondents planning to use it for pre-trade data in the future while buy-side data sharing utility Glimpse Markets is looking interesting to 10% of investment managers.

Buy-side proprietary and sell-side data also each have a projected future use of +10% along with Neptune, which has more market share to capture. A notable new addition this year is LedgerEdge which is expected to offer an 'ecosystem' for bond trading rather than a specific platform, yet is clearly anticipated as providing more pre-trade transparency in the future.

## Interfaces and GUIs

Traders reported having an average of five interfaces used to access credit markets, including a mix of execution/order management systems (E/OMSs) and trading venues. In two cases firms had ten possible interfaces to use which indicates efforts to provide connectivity between trading desk applications still have fertile ground on the buy-side desk. This average was in line with previous years'.

The most popular interface (Fig 3) continues to be Bloomberg's IB/Messaging tools (81%) followed by MarketAxess both of which had gained users over 2020, and then Tradeweb's interface which leapt ten percentage points this year to third place, beating Bloomberg's E/OMS, which saw a slight decline in reported users as did Liquidnet's GUI.

Amongst E/OMSs Charles River and Flextrade were growth stories, as to a slight extent was BlackRock Aladdin. The challenge of making E/OMSs effective in bond trading still impedes the adoption of these tools although greater connectivity with venues is enhancing functionality considerably.

Nevertheless, overall appetite for new interfaces is limited (Fig 4); direct dealer connectivity with dealers has the greatest pipeline for adoption (8%) while BGC Fenics, Flextrade and Symphony SPARC are each expected to be used by 5% of respondents.

## Bond issuance tools

For the first year we have surveyed use and planned use of tools for managing the primary issuance process (Fig 5).

With the launch of new offerings by Liquidnet and sell-side consortium DirectBooks, this is the first assessment of buy-side appetite for these platforms. At present, Bloomberg Messaging and IB chat is the most commonly employed tool in this largely manual process. However, IHS Markit's tools which provide an electronic workflow are also

**Fig 3: Interfaces used to access corporate bond liquidity pools/counterparties**

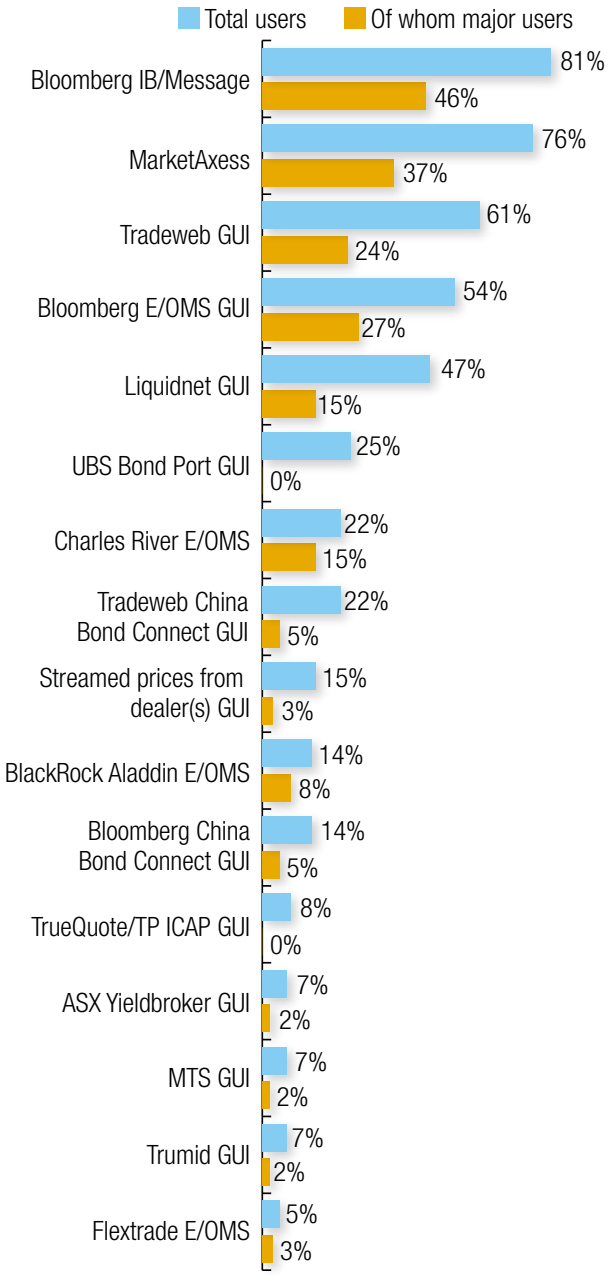



**Fig 4: Planned use of trading interfaces**

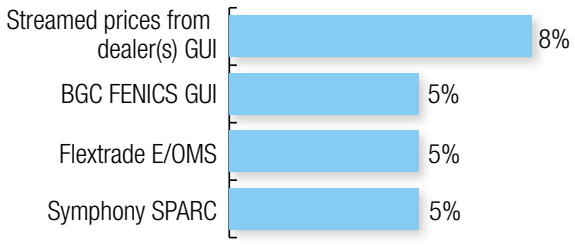


**Fig 5: Bond issuance tools used to access markets**

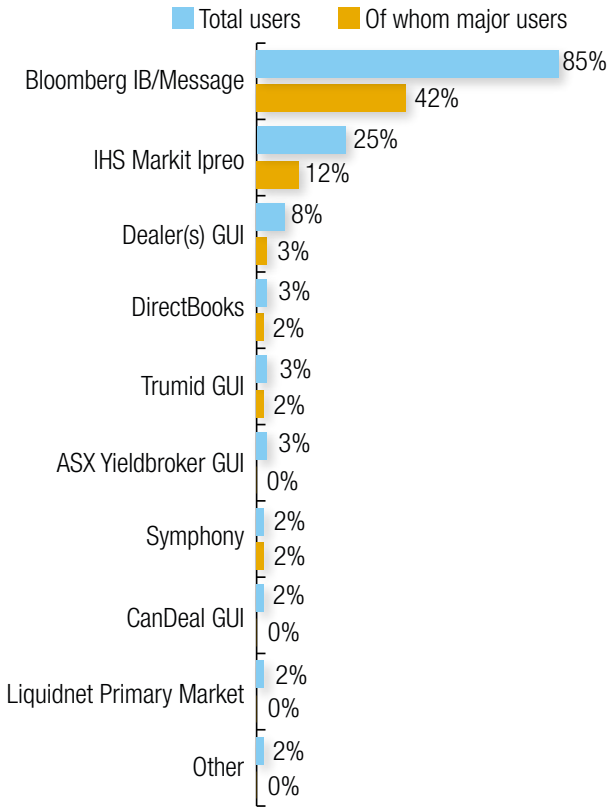
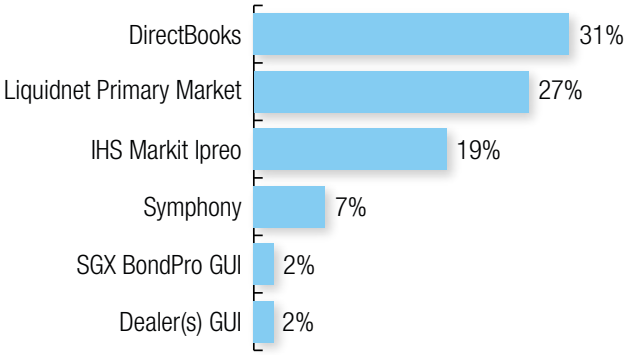



**Fig 6: Planned tools to access markets**

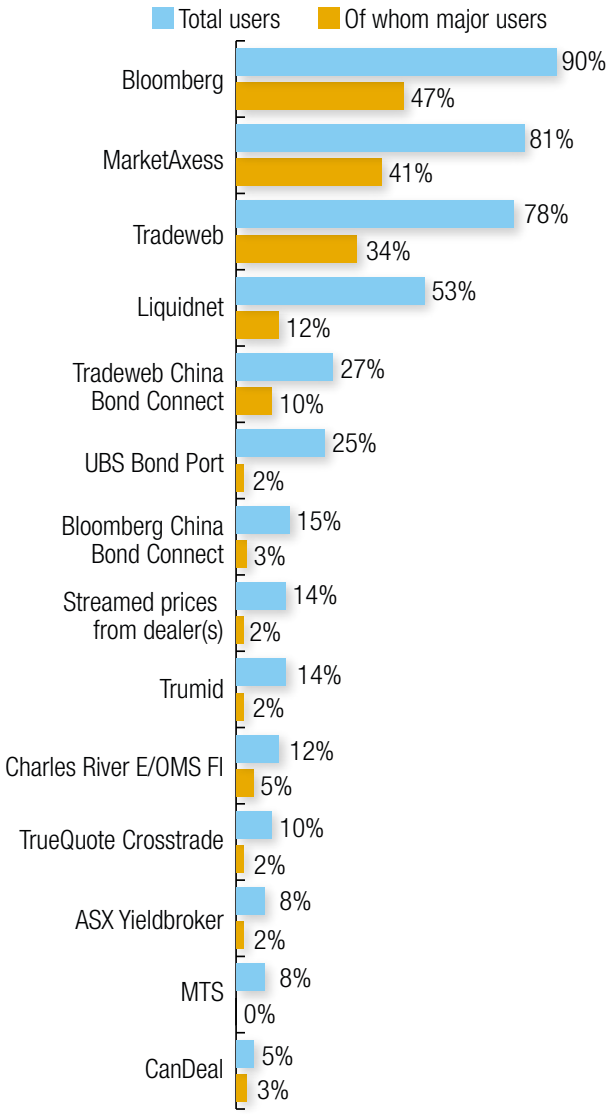



used by 25% of respondents nearly half of those categorising themselves as 'major users'.

Direct dealer interfaces are used by 8% of buy-side traders. Alternative tools are in very early stages, but interestingly trading venue Trumid's GUI is used to manage issuance by a few firms, which is as many as report already using DirectBooks. Communications network Symphony and Liquidnet are also being used at low levels.

The bigger question of which platforms have a pipeline of interest shows a hard-fought context (Fig 6). In the lead is DirectBooks with 31% of buy-side traders planning to use it, and close behind is Liquidnet with 27% of traders expressing interest.

**Fig 7: Trading venues used to execute trades**

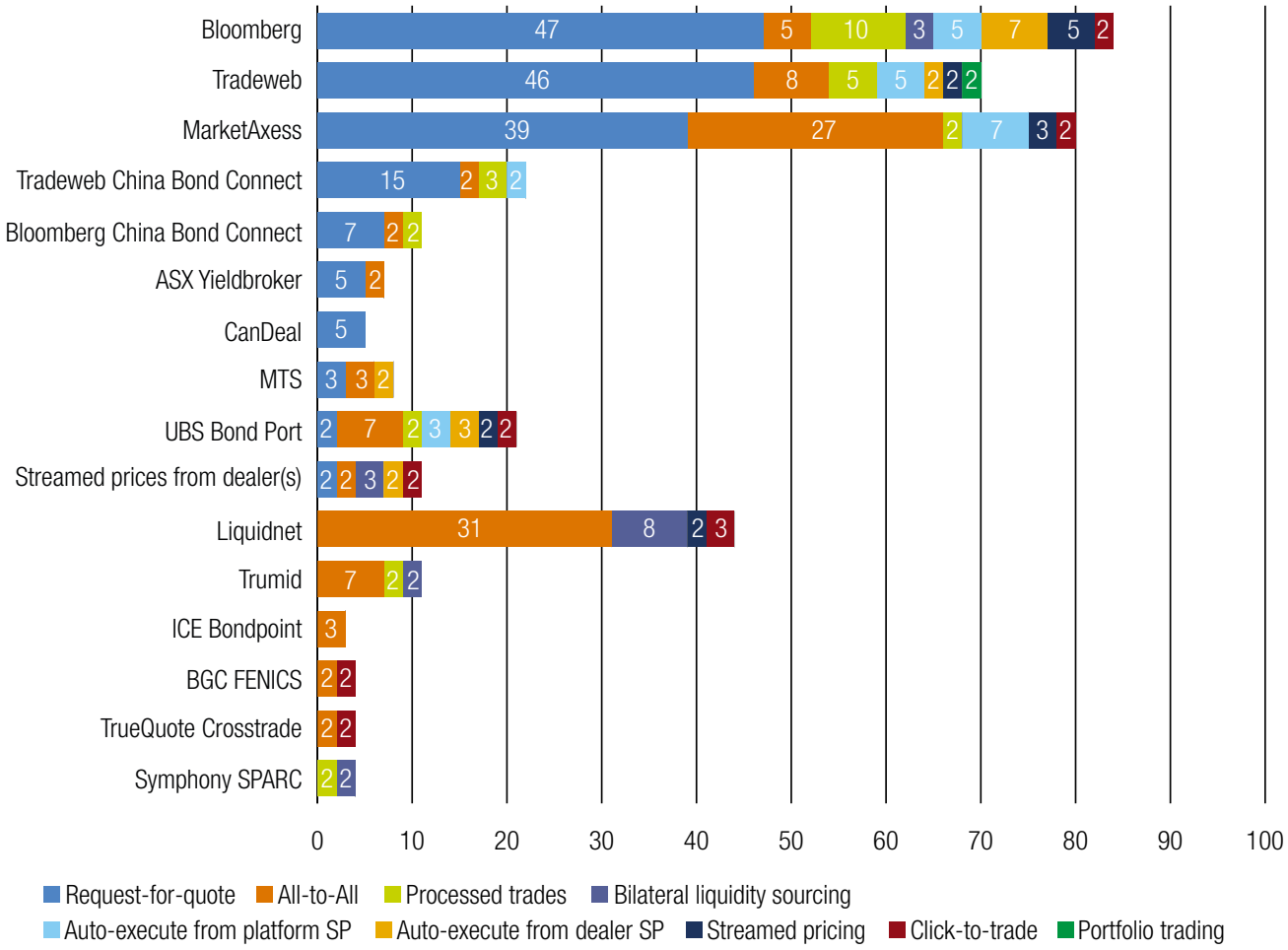



Moreover, IHS Markit could add another 19% of buy-side firms to its existing user base which would give it a 44% market share if those plans converted to action.

Although it as yet has no primary market platform, 7% of respondents plan to use Symphony to handle new issues in the future supporting CEO David Gurle's assertion that there is market interest in it stepping forward.

This level of excitement in onboarding new platforms was last seen in 2016 when Algomi, Liquidnet and Neptune were still being adopted, reflecting the nascent market for primary market offerings. It is worth recalling that, in the case of Algomi, that appetite did not convert into real business while for Neptune and Liquidnet – currently being acquired by TP ICAP – it did. It will be interesting to see how adoption proceeds for

**Fig 8: Trading protocols used by venue**




new issue technologies, given the desire for a utility rather than multiple providers.

## Secondary market trading venues

The rank of top four trading venues is maintained from last year (Fig 7); leader Bloomberg has increased its lead by six percentage points, MarketAxess in second place has increased users by one percentage point and Tradeweb by 11 percentage points. Liquidnet was fourth most-commonly used and had also seen the number of users who classify themselves as major users increase.

Also within the top ten, UBS Bond Port increased by one percentage point to 25% of users and Trumid rose another five percentage points since 2020 which pushes it further up the ranks of the big venues with 14% user base.

Last year's big growth story was Tradeweb's China BondConnect, which was new to the survey yet took a 24% share of users. Although it has only seen a modest increase in users in 2021, the number of traders who are now major users increased from 2% last year to 10% this year suggesting that it is proving valuable.

> "This level of excitement in onboarding new platforms was last seen in 2016 when Algomi, Liquidnet and Neptune were still being adopted."

Bloomberg mirrored that to a lesser extent this year with major growth in its China BondConnect venue, which has a user base of 15% having not charted last year.

Looking at the trading protocols most employed by traders (Fig 8) for each platform, we see the proportion of request for quote (RFQ) trading has fallen since 2020, and all-to-all trading has increased across the board.

**Fig 9: Planned secondary market trading venues**

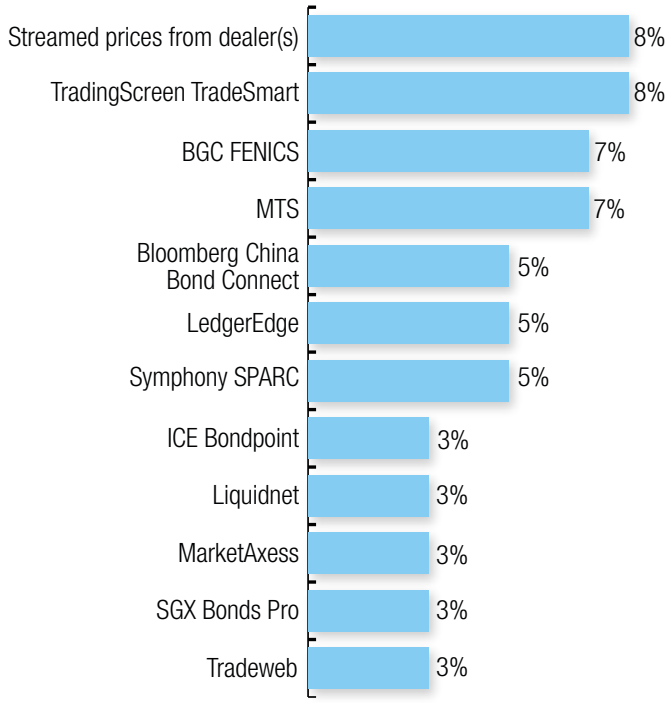
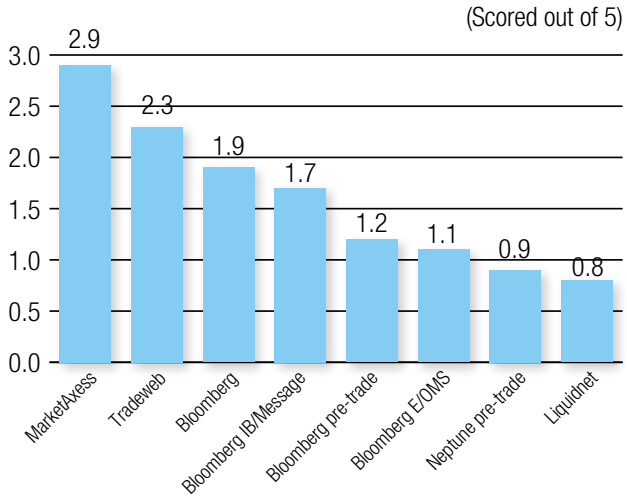



**Fig 10: Most effective platforms for finding liquidity**




The leader in the all-to-all space continues to be MarketAxess and for all-to-all block trading, Liquidnet. Tradeweb has seen this become a preferred protocol for 8% of traders on its platform, up from 4% the year before. Tradeweb was also the only venue to see portfolio trading become a preferred trading protocol, albeit for just 2% of respondents.

Trumid has seen a consistent proportion of all-to-all and bilateral trading reported as in 2020, while this year UBS BondPort increased all-to-all for its own offering.

> "Auto-execution is also seen on several platforms as the preferred protocol for some traders to use."

Auto-execution is also seen on several platforms, notably MarketAxess, as the preferred protocol for some traders to use, reflecting a greater degree of comfort with data in the credit space.

The pipeline for new business in secondary market trading (Fig 9) is tighter in than primary markets, reflecting the more mature landscape. Established platforms have low single digit levels of expected growth for new users, while trades executed via direct streaming from dealers (8%) and less established credit trading platforms including TradingScreen TradeSmart, LedgerEdge and Symphony SPARC are more prominent.

Of all pre-trade data and analytics, interfaces and trading venues, the MarketAxess trading venue was seen as the most effective (Fig 10), followed by Tradeweb and then Bloomberg as a across its venue, messaging / IB chat, pre-trade data support and E/OMS offering. Neptune was the most successful platform outside of the big three, followed by Liquidnet.

It is important to note that the scores this year represent a significantly greater spread of voting, with the concentration of confidence being far lower than in previous years. ■

# Proportion of corporate bond trading by protocol

Sample size: Thirty two asset management firms

Buy-side trading desks have used markedly different proportions of trading protocols between passive and active portfolios this year, and firm's reported trading activity has differed substantially to 2020.

**Fig 11: Proportion of trading in active portfolios**

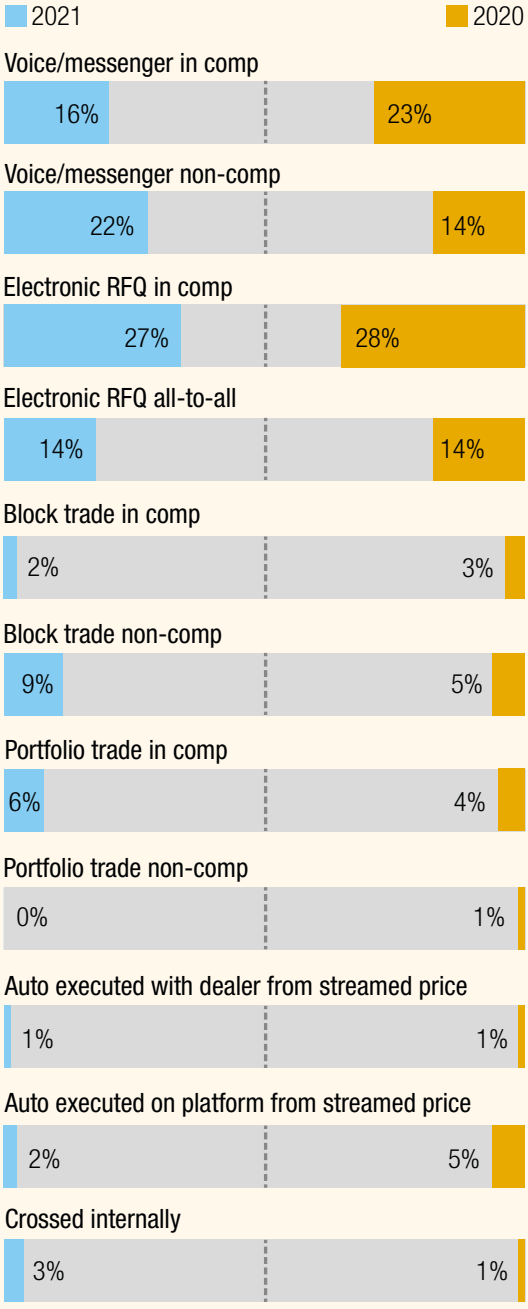
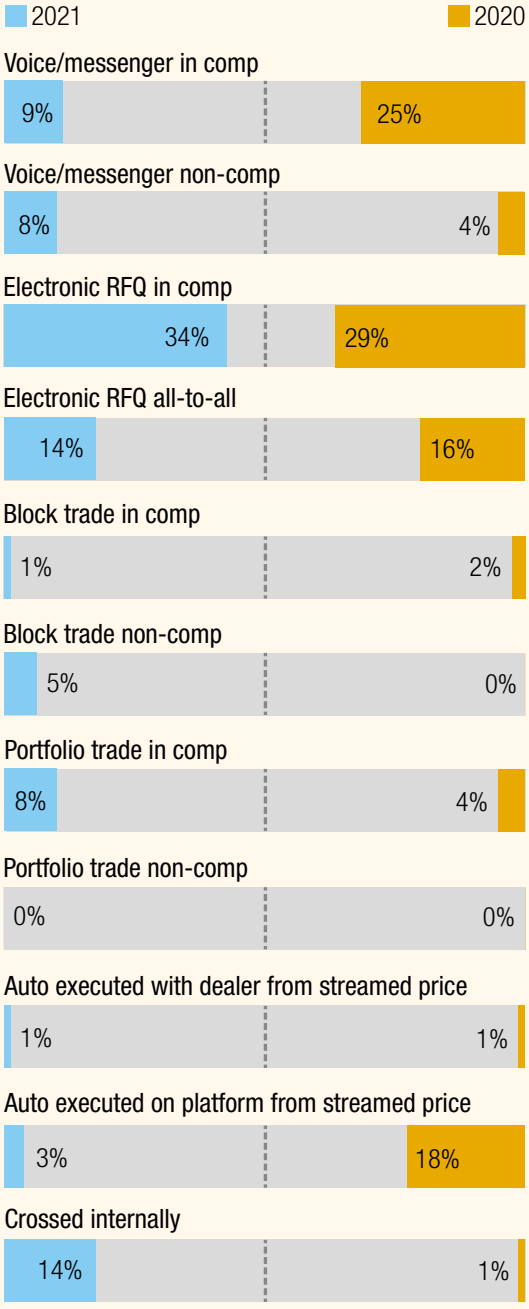



**Fig 12: Proportion of trading in passive portfolios**



Several big trends are in evidence this year. The first observation is that there is a greater divergence between the trading protocols used to execute orders for passive and active portfolios this year than in 2021 (see Fig 11 and Fig 12)

Secondly, an increase in the use of trading in which dealers are not put into competition (non-comp) for prices, with a corresponding decline in the use of protocols which see dealers in competition (in-comp).

Thirdly, internal crossing of trades has increased substantially and auto-execution against streamed prices from platforms has decreased substantially.

> "There is a greater divergence between the trading protocols used to execute orders for passive and active portfolios this year than in 2021."

## Trading for active portfolios

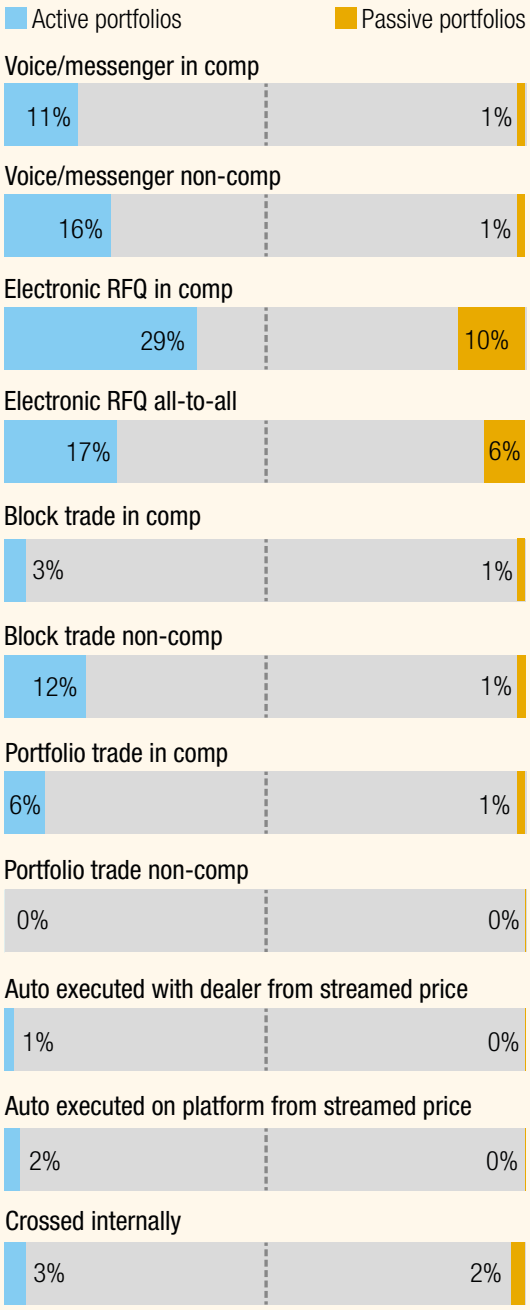
Trading for active portfolios this year (Fig 11) has seen declines in trading in-comp for voice/messenger, electronic request-for-quote (RFQ) and block trading protocols. Non-comp trading for voice/messenger and block trading protocols has increase, while electronic request-for-quote (RFQ) trading has remained on a par year-on-year.

Portfolio trading in-comp is an outlier, rising to 6% of trading in 2021. While this may still be a small proportion of overall trading, it does represent a 50% increase over the previous year. Internal crossing has also increased to 3% up from 1% the year before.

When we break down the 2021 results by size of firm (Fig 13, 14 & 15), it is clear that mid-sized (fixed income AUM of US$100bn-500bn) firms use voice messenger for a higher proportion of trades for active portfolios than smaller or larger firms.

Portfolio trading and internal crossing are used far more commonly by larger firms (>US$500 billion AUM) than others, along with electronic RFQ and portfolio trading in-comp. There appears to be a more traditional set of mid-sized firms who are using voice/messenger in a greater proportion of their executions than either smaller or larger firms.

**Fig 13: Proportional use of trading protocols for firms with US$50bn-US$100bn fixed income AUM 2021**




## Trading for passive portfolios

Traders working on passive portfolios (Fig 12) have made the most substantial drop in the use of voice/messenger in-comp, but have increased their overall use of electronic RFQs in-comp, and doubled their use of portfolio trading in-comp. The shift from auto-execution of trades on platforms from streamed prices, and relative increase in the use of internal crossing trades is

**Fig 14: Proportional use of trading protocols for firms with US$100bn-US$500bn fixed income AUM 2021**

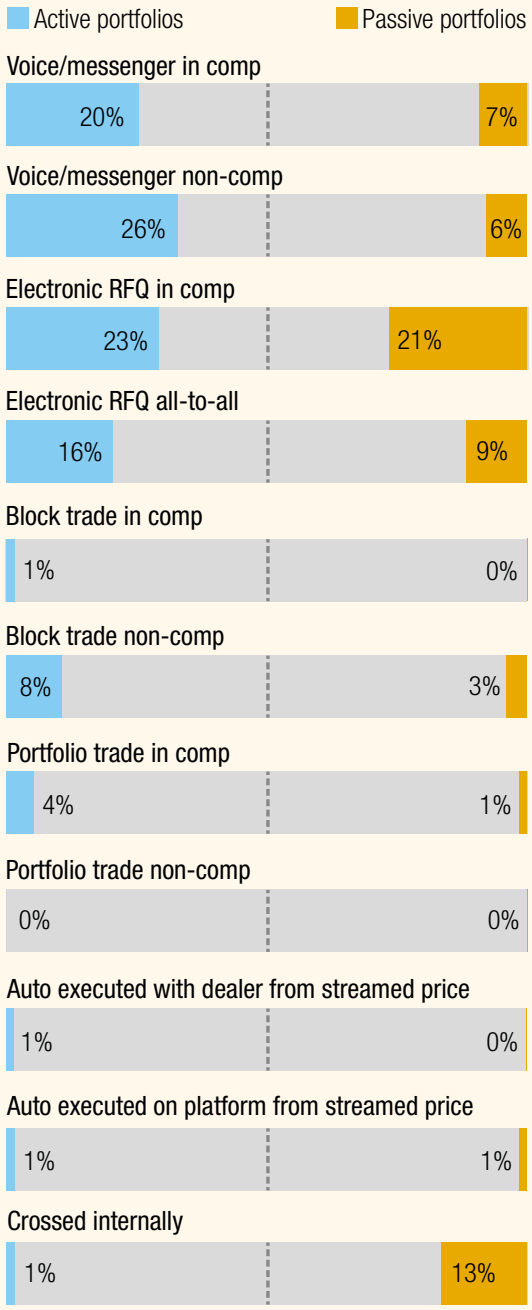
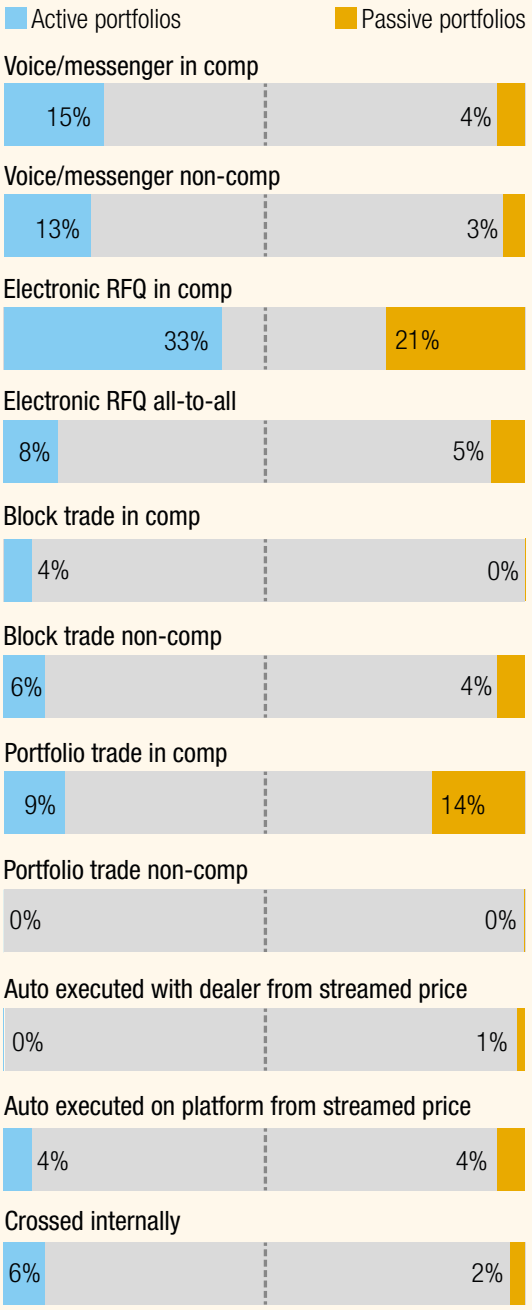



**Fig 15: Proportional use of trading protocols for firms with US$500bn-US$1tn+ fixed income AUM 2021**




more marked for passive portfolios than for active.

If we assess responses based upon the AUM of the firms (Fig 13, 14 & 15), there is an outsized use of portfolio trading by larger firms, which likely reflects that large passive houses have been successfully engaging with both banks and platforms to manage their portfolio rebalancing. Given their lead in portfolio trading for active portfolios as well, it would seem the big firms have led the charge in driving PT forward. They are also the main users of auto-execution for both active and passive mandates.

Another curiosity here is that mid-sized firms are championing internal crossing for passive portfolios, by some margin. By cross referencing with the country in which firms are headquartered, it is clear that asset managers based in the US are exclusively driving this. ■

# Execution and order management systems in fixed income

Sample size: Thirty asset management firms

Buy-side bond traders want their trading technology to provide a better picture of the market and a more flexible approach to their trading workflows, but those who employ an execution management system (EMS) in addition order management system (OMS) find they do have a material advantage across several trading functions.

The trade-off is the cost and work involved in engagement with a new system provider – there are still major areas for improvement across EMS functionality.

## Assessing the system providers

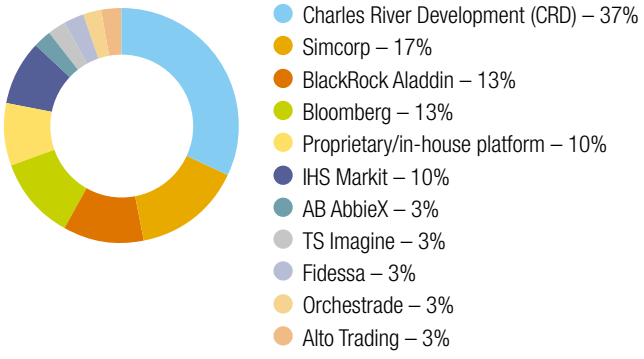
Of the 30 respondents to this research, all had an OMS of some description, with ten commercially available systems noted, and several asset managers using inhouse technology. Charles River Development (CRD) had the largest user base, followed by Simcorp and then BlackRock Aladdin and Bloomberg in joint third place (Fig 16).

The diversity of providers noted was interesting, as was the use of more than one OMS by five firms. Simcorp and Bloomberg OMS users were most likely to have their OMS platform functioning as an EMS within a single system, rather than operating two platforms.

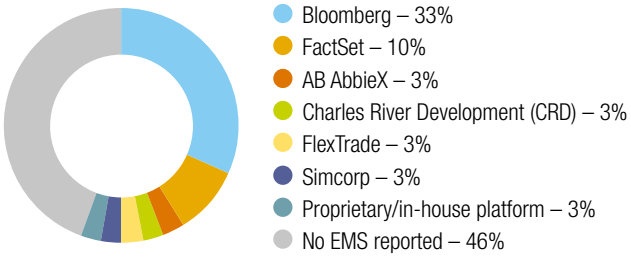
In the EMS space (Fig 16) Bloomberg was the prevalent platform being used, followed by Factset. Far fewer (54%) trading desks reported having an EMS for fixed income than those which used an OMS, when including a combined E/OMS and internally developed tools as well as third party systems.

However, the pipeline for new business was greater amongst EMS providers than it was for OMS developers (Fig 17). In part this is likely to reflect the maturity of the OMS market which has seen big players take a good percentage of the market. OMSs primarily focus on internal processes and these have been simpler to support than execution management which is highly variable between firms and between fixed income instruments, therefore harder to model and standardise by third party providers.

**Fig 16: Current OMS in fixed income (% of participants)**

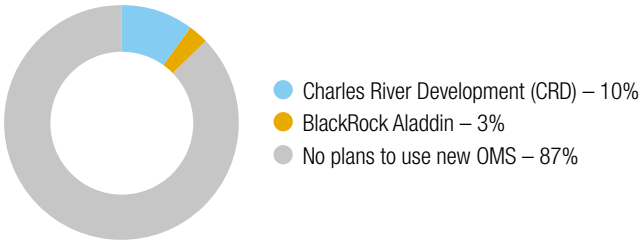



**Current EMS in fixed income (% of participants)**

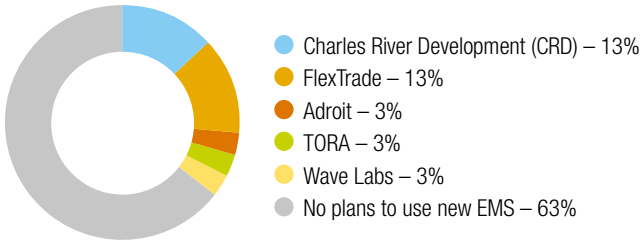



*NB Percentage total may equal more than 100% where respondents report using more than one platform*

**Fig 17: Plans to use new OMS (% of participants)**




**Plans to use new EMS (% of participants)**




*NB Percentage total may equal more than 100% where respondents report using more than one platform*

Within the OMS market, firms planning to use an OMS which they do not already have are largely looking at Charles River and also Aladdin. Many firms (87%) expressed no intention to use a new OMS.

In the EMS space both Charles River and FlexTrade had a pipeline of 13% of firms reporting plans to onboard them – in Charles River's case reflecting including several OMS users expanding to the firm's EMS tool. Other firms included were Adroit, TORA and newcomer Wave Labs.

When looking at the other asset classes for which OMSs and EMSs are used, the third party providers most commonly used in the fixed income space are also likely to be used for other instruments. One exception here is BlackRock Aladdin in the equity space, in which it falls down the scale compared to FX and futures.

## Working together

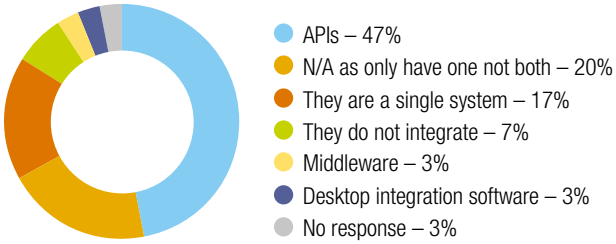
Most firms using both an EMS and OMS use application programming interfaces (Fig 18) to link the two, while 44% do not use an integrator because they are a single system, or because an EMS is not used, or because they do not integrate.

Amongst respondents a small number are currently using desktop integration software to link an OMS and EMS, although OMS providers report they are working with third-party system providers to use these tools more effectively.

Bond markets are unusual in that there is a gap between the internal buy-side technology and connection to the trading venues which provide different ways to trade. For example, orders that have been set up in an OMS then need to be re-staged into a trading venue. Connectivity between the venues and the platforms is improving but this is still a barrier to more efficient trading.

Many traders report a preference for a workflow

**Fig 18: How do your EMS and OMS integrate?**




that allows orders to be staged within an OMS and then managed into the market via the EMS functionality, without needing to worry about the venue being used. This would require smooth connectivity between the internal systems and the venues/counterparties as well.

## What the tools can do today

When we separate out the functions that are covered by OMS and EMS providers, the split is largely what might be expected. While order and position tracking and routing, both internally and externally are more commonly handled by an OMS (Fig 19), EMSs deliver a far greater level of pre-trade analytics (Fig 20) than OMSs. Interestingly the connectivity to multilateral venues is more commonly handled by OMSs, yet most execution functions are handled by the EMS.

There are some capabilities offered by both to varying degrees for example the feedback loop of order management, including trade confirmation and settlement, are more commonly handled by OMSs, although these are handled by a minority of either type of system. In other parts the EMSs seem to step into functions that are less commonly used.

The main areas of new functionality that EMSs bring are in pre-trade activity, external trade and order tracking, but also counterparty selection, execution algorithms and streaming prices from dealers.

**Fig 19: Functions OMS provides in fixed income**

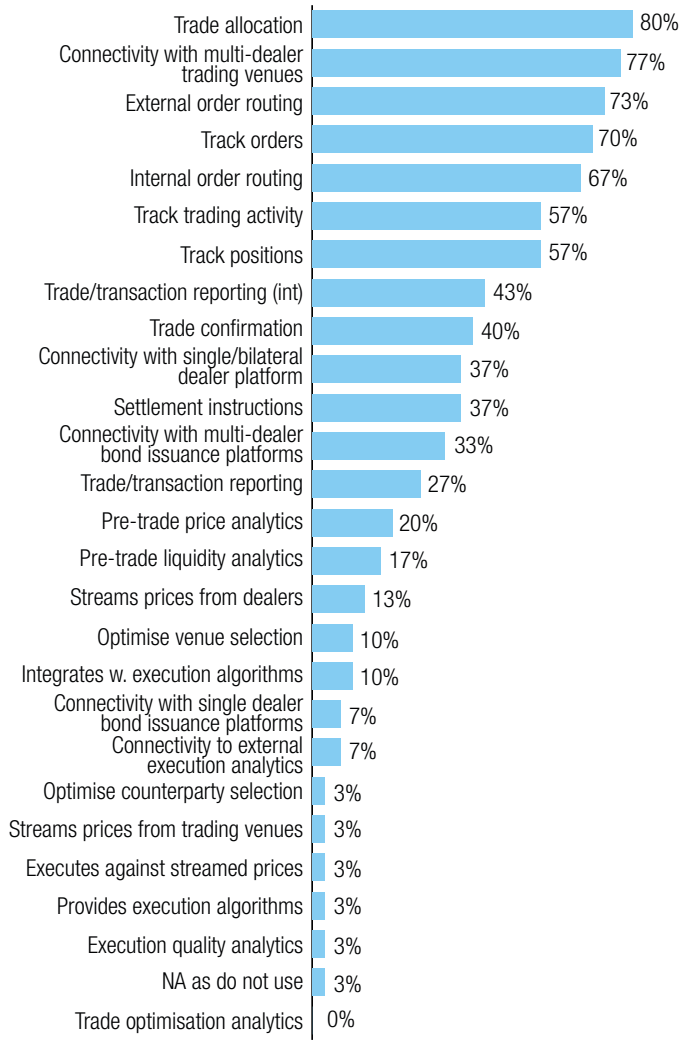



**Fig 20: Functions EMS provides in fixed income**


However, the level of effectiveness that these tools deliver does not always match their potential. If we look at respondents who are only using an OMS (Fig 21) , we see six primary functions at which users report they are effective: tracking orders; multilateral venue connectivity; internal order routing; position tracking; external order routing; and tracking trading activity. They are also seen as being more effective than ineffective at trade allocation, confirmation and regulatory trade reporting. They are mainly considered ineffective at pre-trade analytics, execution quality and counterparty analysis and integrating streaming prices.

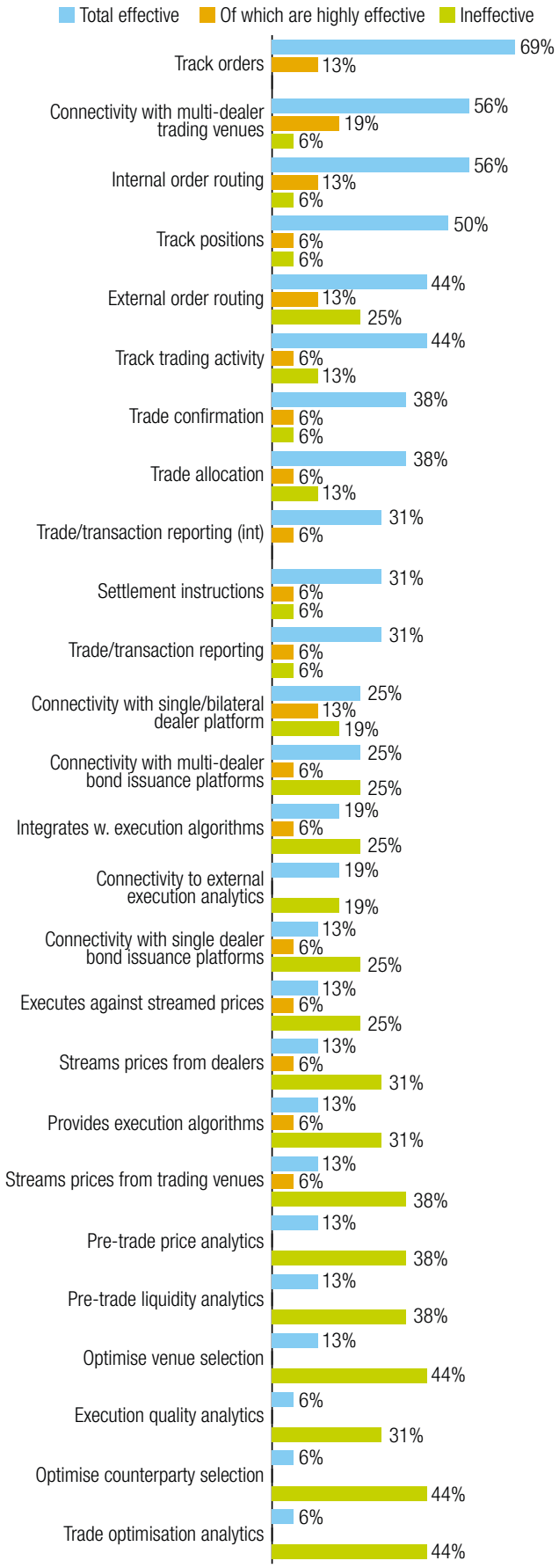
When we looked at the effectiveness for these functions at firms that used an EMS in addition to an OMS (Fig 22), the picture was quite different.

Firstly, the level of effectiveness for connectivity with multilateral venues, and external and internal order routing and tracking was higher suggesting the addition of an EMS has a clear net positive effect on execution management. We also found that accessing streamed prices was more effective than ineffective for these firms. Around a third of respondent found their combined E/OMS was now effective at providing pre-trade analytics and a quarter were able to use their tools effectively for optimising venue and counterparty selection. That is twice as many OMS only users for venue selection and four times higher for counterparty selection.

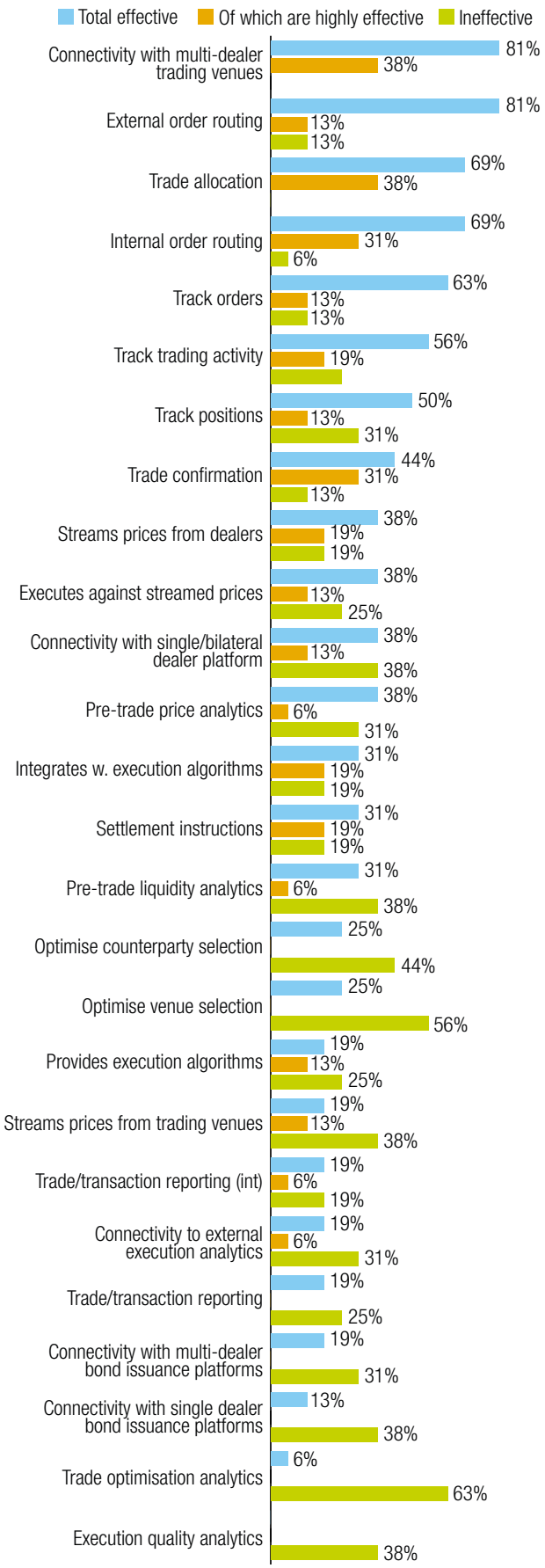
Nevertheless, we still saw underperformance in analytical capabilities including execution quality analysis and pre-trade tools.

Looking at all respondents, the industry is finding its front office tech most effective at order and trade management, plus venue connectivity, with more mixed results for post-trade reporting, settlement and streaming prices, and poor results for analytics of most kinds.

## Fig 21: E/OMS functionality for OMS users only




## Fig 22: E/OMS functionality for EMS users



## What traders want

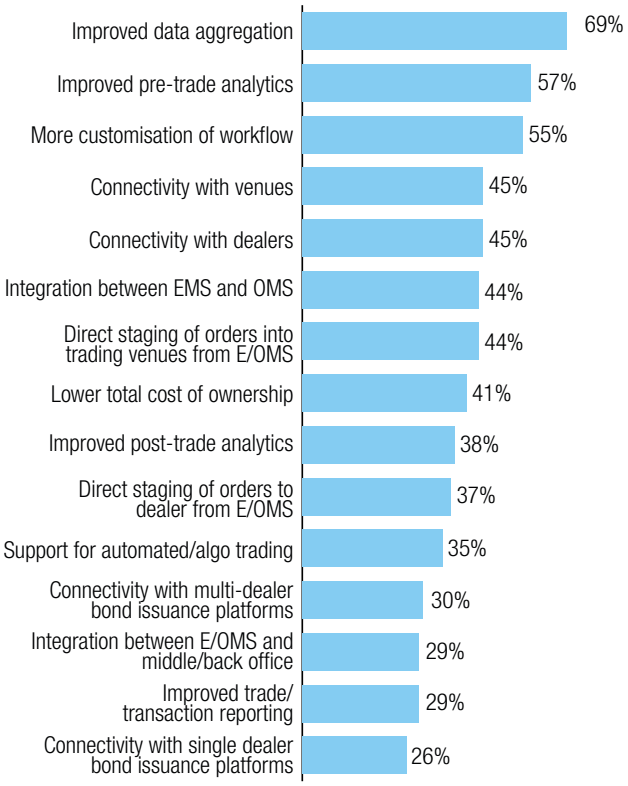
The improvements that traders want to their E/OMS set-up (Fig 23) are in line with the gaps in performance that they currently see, with based upon specific functions being added. When we asked traders to prioritise improvements, they rated data aggregation as the first point, followed by pre-trade analytics and customisation of workflow.

Despite the effectiveness of current connectivity, nearly half of traders saw venue and dealer connectivity as a major priority.

Integration was also key, between the E/OMS and also to the point of execution, with 44% of traders asking for the ability to stage orders directly into venues.

Given the relatively high level of prioritisation for these options, with 26% being the lowest (for connectivity to bond issuance tools), there are clearly many changes that traders want to see in the support being offered by their OMS and EMS providers. ■

**Fig 23: Improvements that would increase E/OMS value**



# Analysing trade quality in bond markets

Sample size: Thirty five asset management firms

The majority of trading desks use analytics provided by third-party providers and in-house systems (Fig 24). Very few use broker supplied analytics which is in direct contrast to the equity market in which firms such as Virtu (through its acquisition of broker ITG) have been longstanding suppliers of TCA services.

In the fixed income space, more than 50% of respondents (Fig 25) used trading analytics as part of their broker review process to assess the performance of trading counterparts, for client reporting and for assessing trading desk performance with just under half (49%) also using it for regulatory reporting.

It is used far less for supporting the trading workflow, for assessing trader performance and for use in investment strategy performance, although at nearly 40% of respondents for each of these use cases there is still a significant minority who are employing analytics for this purpose.

When the current use of TCA / analytics is compared to the effectiveness that traders assign to the service (Fig 26, there is an imbalance between use and perceived effectiveness. While analytics

**Fig 24: Execution analysis services use in fixed income**

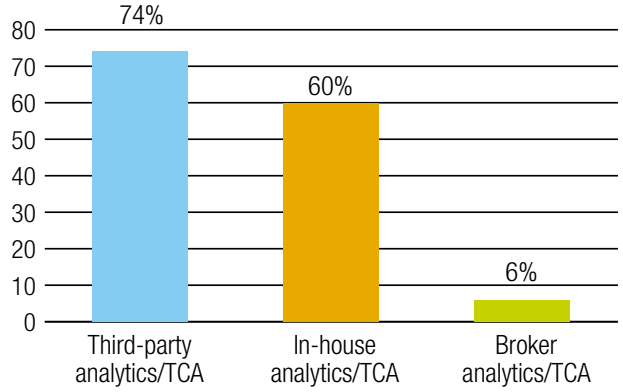



**Fig 25: How do you use TCA / execution analytics within your fixed income trading operations?**

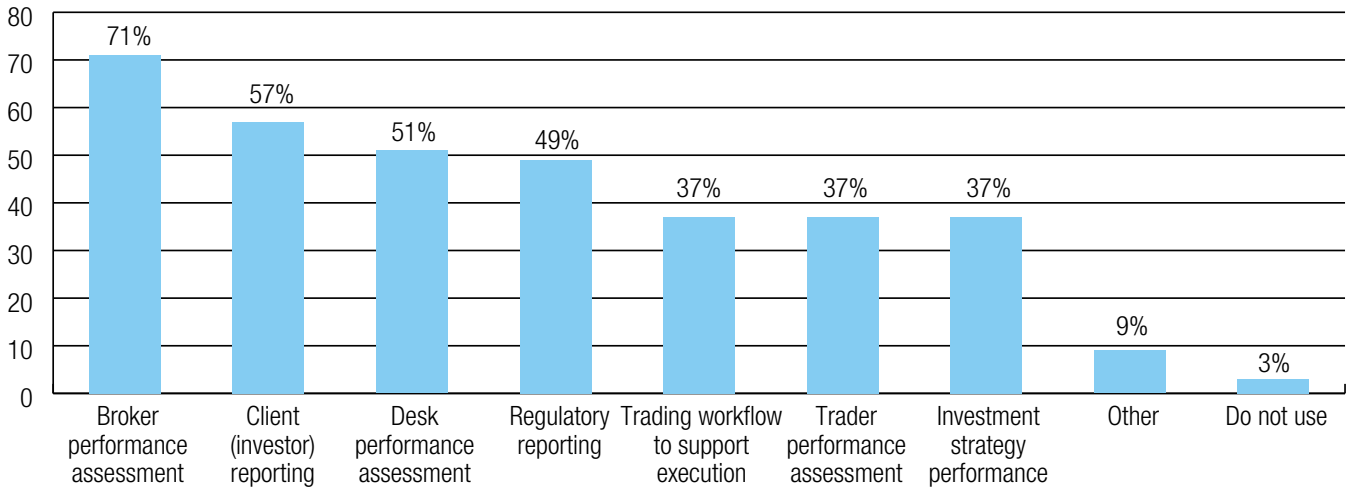


**Fig 26: How effective have you found TCA to be in the following tasks for income?**

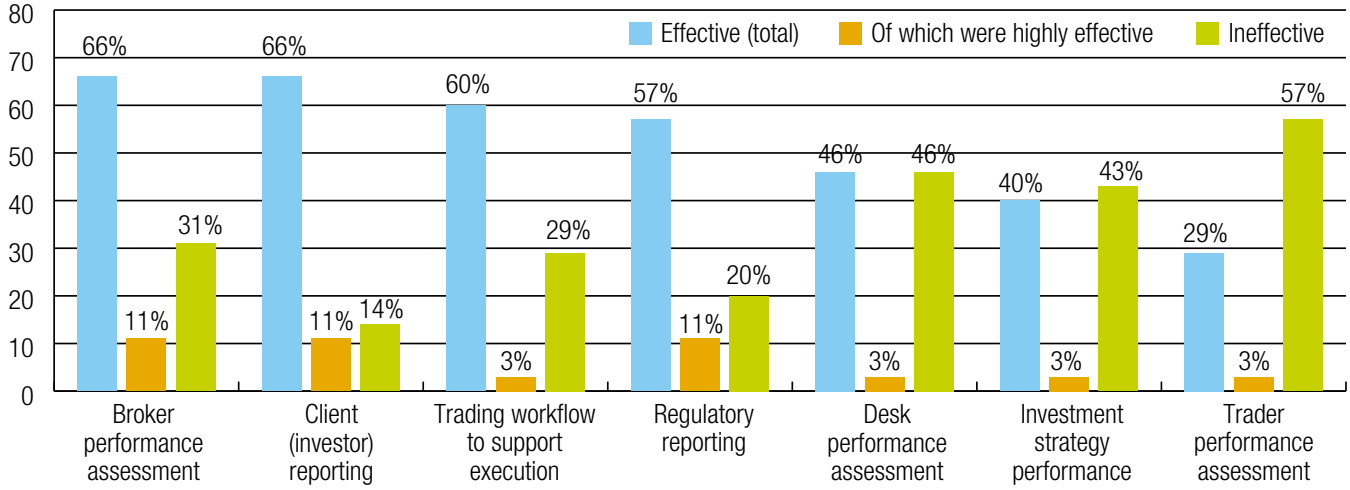
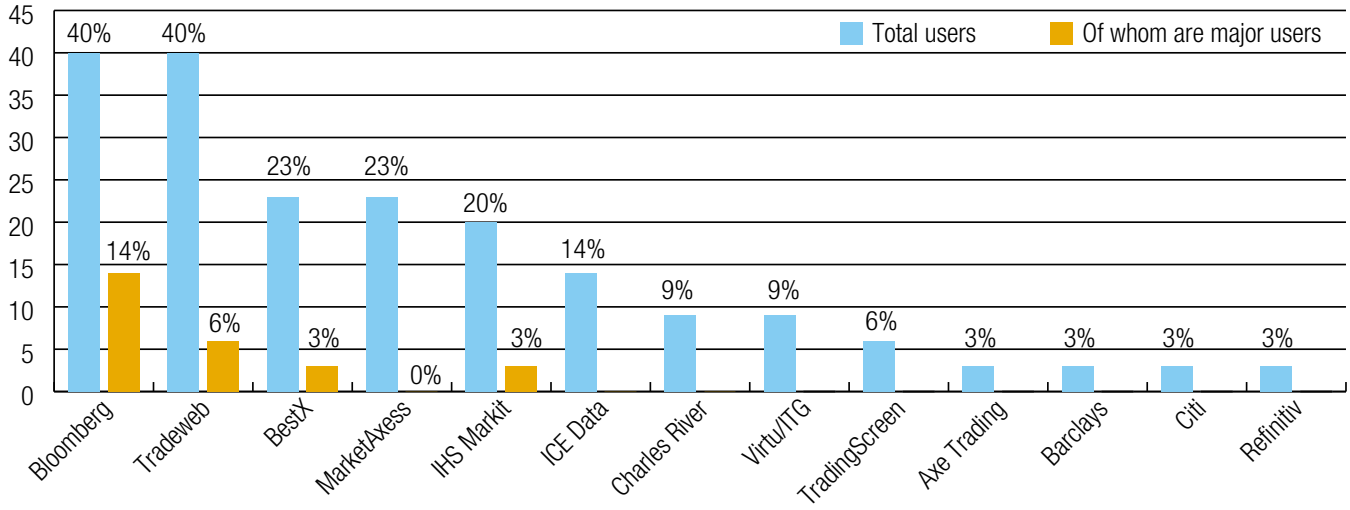



**Fig 27: Which fixed income TCA services do you use?**




is rated highly for broker assessment and client reporting, for which it is commonly used, 60% of traders think it effective in the trading workflow, yet 39% use it for that purpose.

There are also very split views of effectiveness; 31% of trader thought TCA was ineffective in judging broker performance and 29% thought it was ineffective in supporting trade execution.

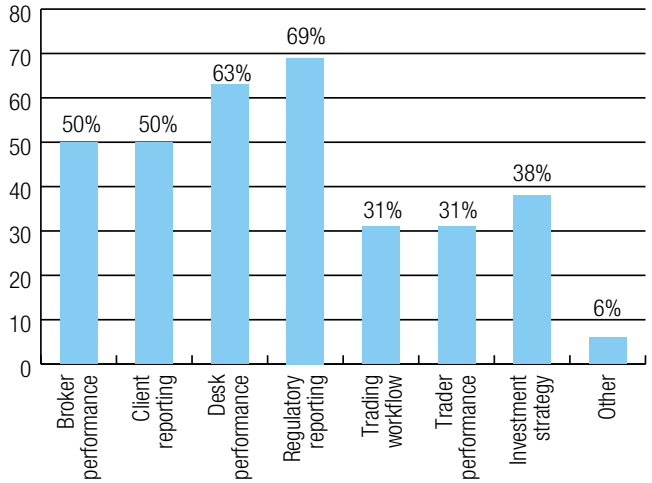
This division was even more pronounced for other functions. Across firms, 46% thought TCA effective for desk performance and 46% thought it ineffective. A slight majority thought it ineffective at assessing investment performance, against the number (40%) who thought it effective. Most agreed it was ineffective at supporting assessment of individual traders, but nearly a third thought it effective.

## Unpicking the division

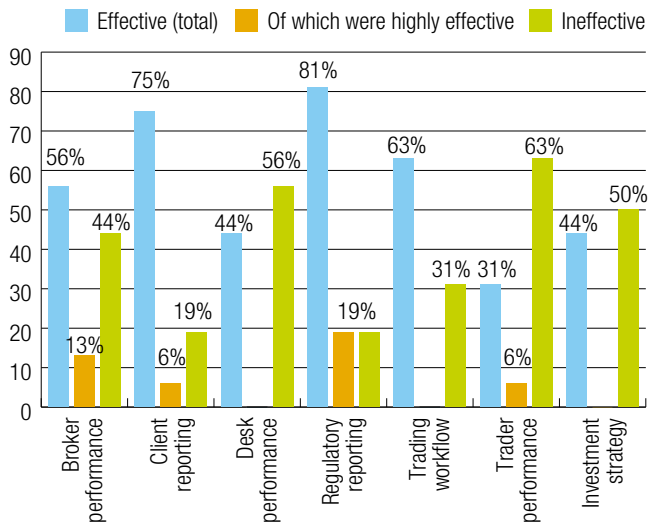
To look into the possible causes of these divisions, we assessed those result on a supplier basis and on a portfolio basis i.e. which types of portfolio were being traded for, as these could potentially the way firms traded and which services were being used. Both of these are dynamics which could affect use and affect performance.

The average buy-side firm used between one and two third-party TCA providers. The top five most popular based on total users and the proportion of those who are major users, are Bloomberg, Tradeweb, Best X, MarketAxess and IHS Market. Each of these has different services on offer to clients which means their users do not see a single homogenous service.

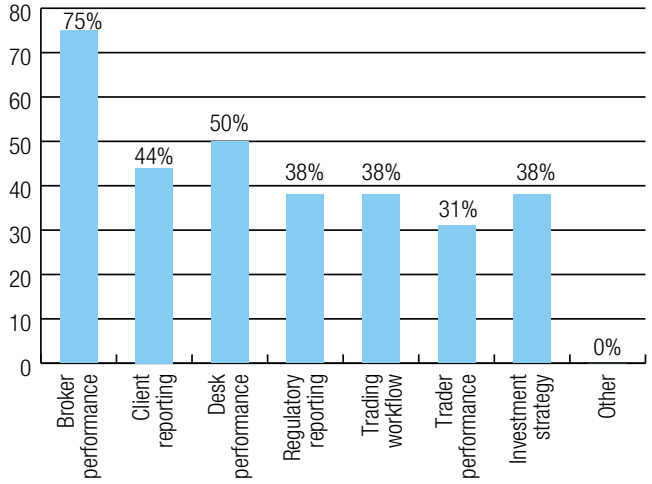
## Fig 28: Bloomberg users: Current TCA usage



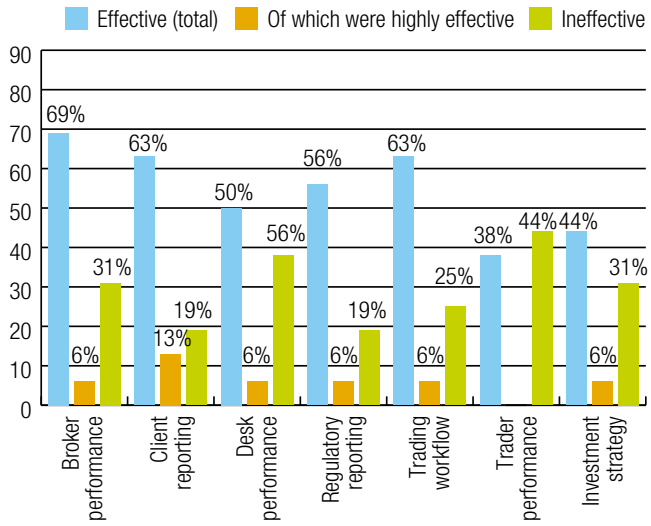

## Bloomberg users: Perceived TCA effectiveness



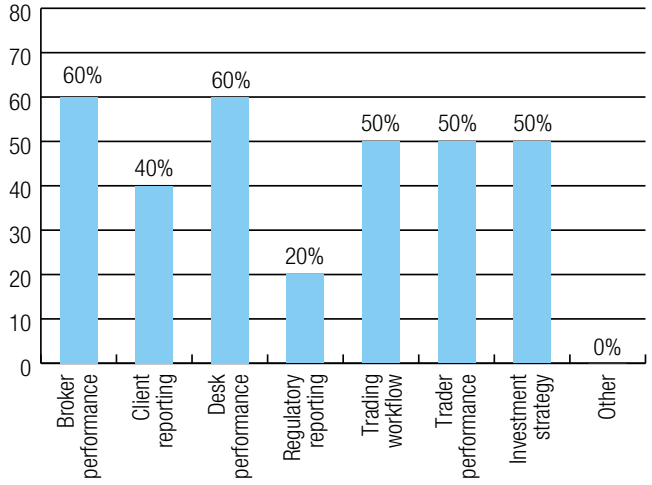

## Fig 29: Tradeweb users: Current TCA usage



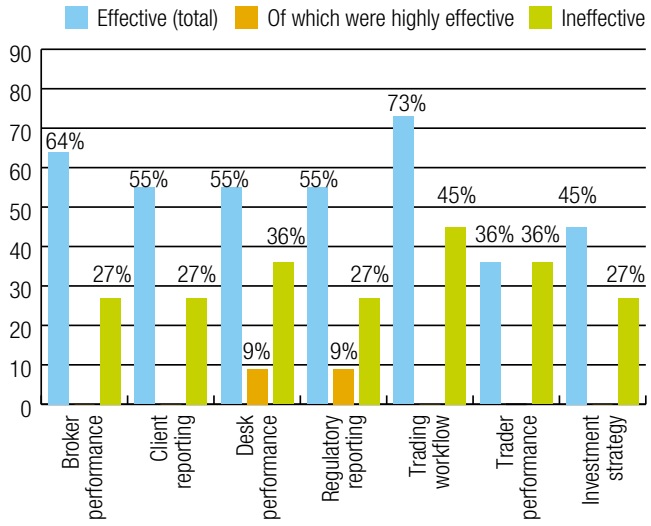

## Tradeweb users: Perceived TCA effectiveness



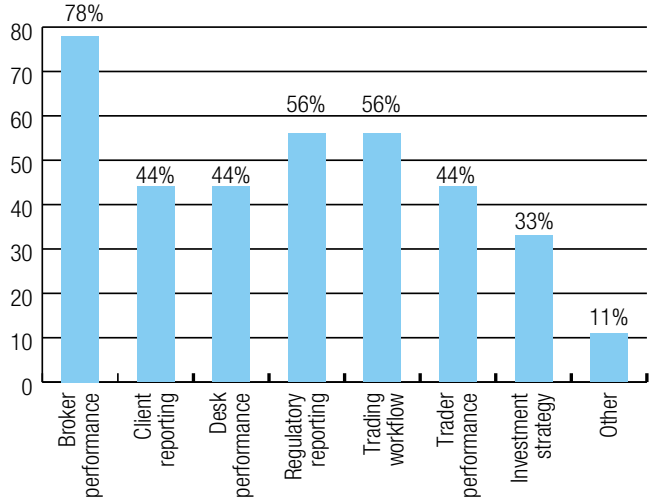

## Fig 30: MarketAxess users: Current TCA usage



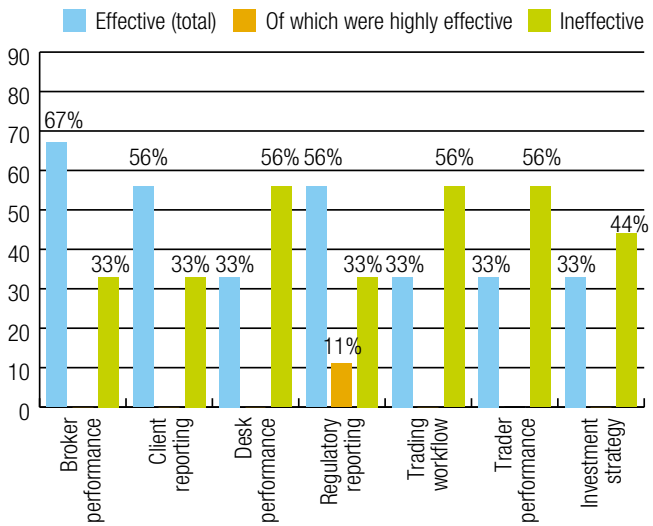

## MarketAxess users: Perceived TCA effectiveness



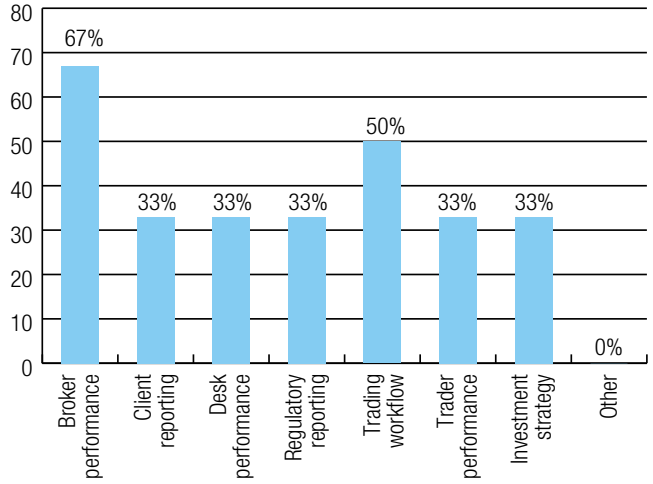
## Fig 31: IHS Markit users: Current TCA usage



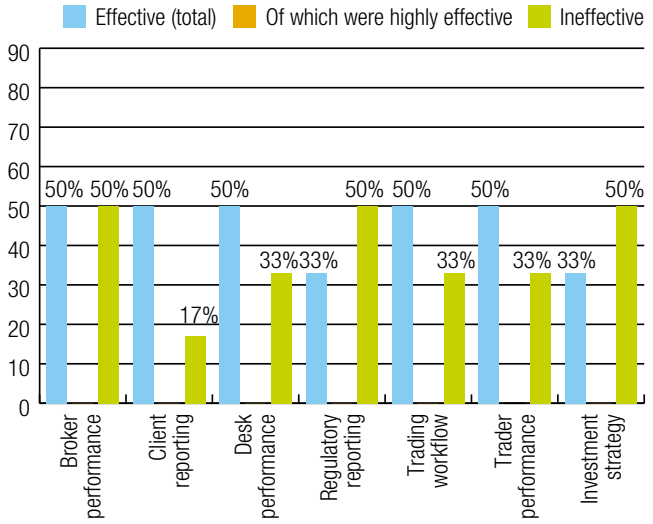

## IHS Markit users: Perceived TCA effectiveness



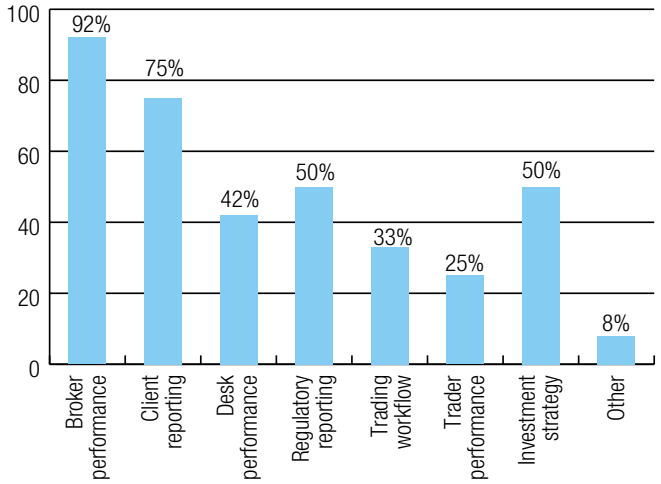

## Fig 32: ICE Data users: Current TCA usage



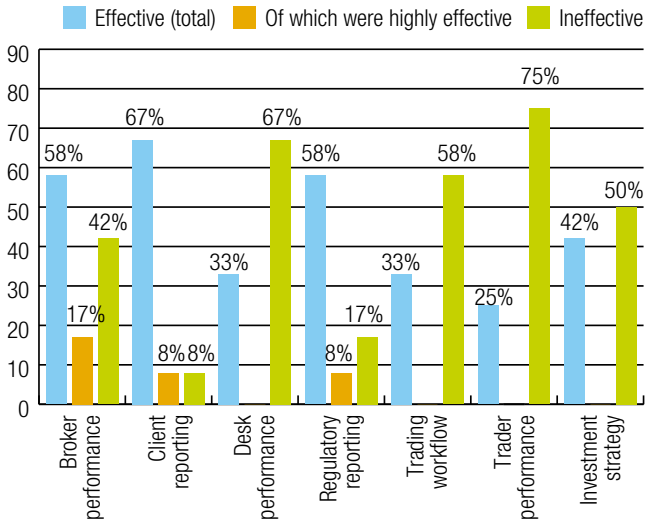

## ICE Data users: Perceived TCA effectiveness




## Fig 33: BestX users: Current TCA usage




## BestX users: Perceived TCA effectiveness



If we analyse the usage of TCA for specific tasks, we immediately find that there are functional differences. Traders who use Bloomberg primarily used TCA for regulatory reporting (69%) and desk performance (63%) while all traders using other platforms are primarily using it to assess broker performance. Reg reporting is low down the curve for Tradeweb and MarketAxess.

Users of ICE, IHS Markit and MarketAxess tools are for the most part bringing TCA and analytics into their trading workflow to support execution, while the users of other platforms have a lower proportion (below 50%) doing so.

Views of TCA effectiveness do not tally with the services that are being employed by those traders. For example, 75% of Bloomberg users report that TCA is effective for client investor reporting, yet only 50% of them use TCA for that purpose; 63% see it as effective at supporting the trading workflow while just 31% employ it for that purpose.

In the wider market, but also between users of specific service providers there are very different views of effectiveness. Every application of TCA is seen as being ineffective by double digit figures, for the users of every services, barring only one – just 8% of Best X users think TCA is ineffective at client reporting.

These differences in use and perceived effectiveness can explain the division seen in the wider market. The differences in use of TCA – and value ascribed to it – for the clients of each provider can stem from several factors. Firstly, each third party provider offers a range of TCA tools. Secondly, some will use more than one provider – including internal TCA tools. Finally, clients and regulatory frameworks make different reporting valuable to the trading desks.

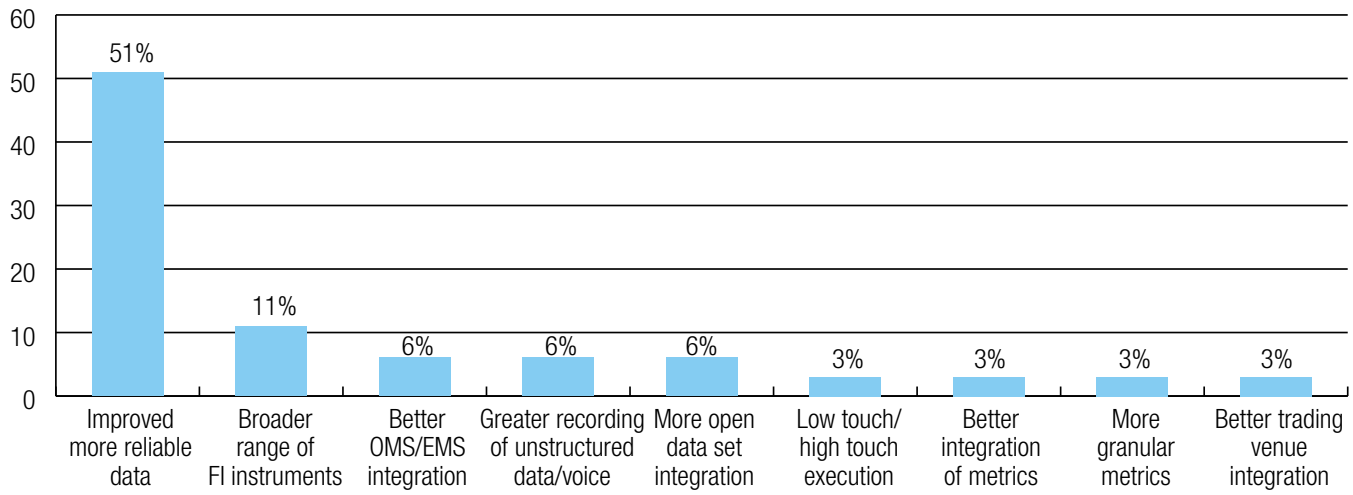
Clearly there is considerable scepticism even within the user base of the effectiveness of current TCA services for many tasks for which it is currently used but there are also successes and feedback from traders is that the buy-side needs to look at how it can get better service from providers.

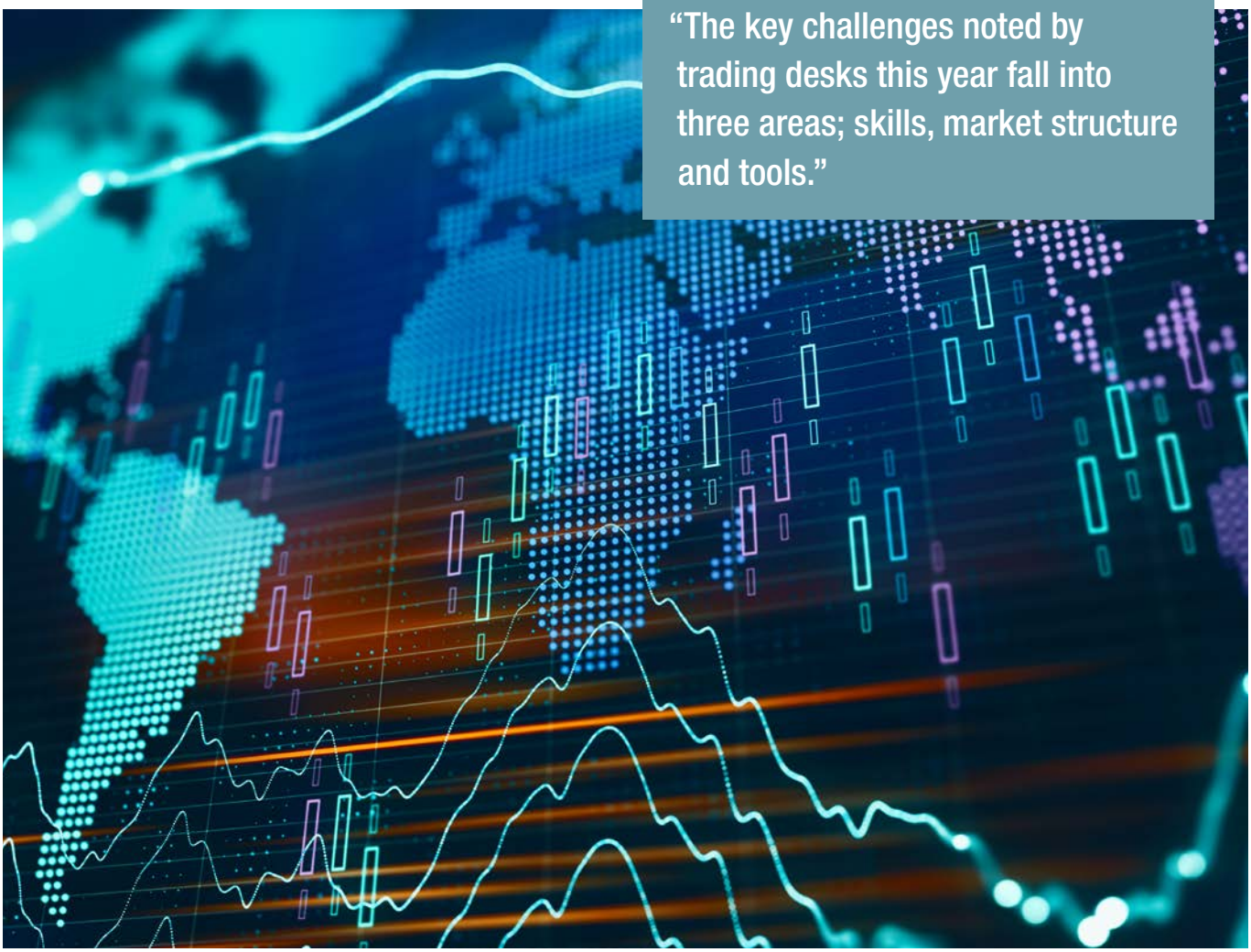
Feedback from the buy-side on the research results has been supportive of better communication between buy-side traders and TCA providers, particularly in the questions that TCA services are capable of answering today. Although there is broad agreement that trying to provide services to too wide a set of buy side firms can lead to none of them being happy with the result, it is also acknowledged that the TCA providers have limited resources.

If buy-side traders can present a unified set of requirements for service providers that would help to deliver better services across the board.

The greatest challenge is data (Fig 34), according to respondents, with 51% citing 'improved and more reliable data' as the one factor that would improve the value of fixed income TCA services. With both US and European regulators making steps towards more standardised transparency in fixed income, better data ought to be available publicly or commercially in the bond markets in coming years.

**Fig 34: What would improve the value that fixed income TCA services could provide for you?**





"The key challenges noted by trading desks this year fall into three areas; skills, market structure and tools."

## Conclusion

As a journal The DESK does not take positions in how the market might change, but it does engage with buy-side traders in a regular basis to acquire qualitative feedback on the information we receive.

The key challenges noted by trading desks this year fall into three areas; skills, market structure and tools.

The trading desk is evolving into a much more quantitative place, and asset managers are competing for talent that can bring these new skills to bear upon the trading decisions they make. As can be seen from the research, there are serious gaps in data today which need to be filled. A skilled team can do just that, with the right tools.

Market structural issues are more apparent in fragmented markets such as Europe and Asia Pacific than in the US. The lack of consolidated price tape for bond trading is a big issue outside of the US, and the lower levels of concentration upon electronic platforms can make execution more challenging to manage. However, in primary markets the electronification of the US market is only just beginning and traders are keen to see the benefits of this realised.

There is a convergence of market structure and trading tools in one area – banks are keen to stream prices directly to their buy-side clients, but any trading tool which aggregates multiple price streams could be categorised as a trading venue – with decisions on this likely to be confirmed in 2022.

The evolution of trading tools – whether order or execution management systems – is hotly anticipated by buy-side traders who are facing a heavy workload in 2022. If bond issuance only declines by 3% from 2021 – as predicted by S&P Global Ratings – then it will still be close to record levels, creating time pressure on secondary market trading.

We will be able to judge the success of this evolution in 2022. ■

*The DESK would like to thank all of those buy-side traders who contribute to its research.*

# Guide to charts

## Chapter 1: From the Trading Intentions Survey



## Chapter 2: From the Trading/Execution Protocols Survey



## Chapter 3: From the Fixed Income E/OMS Survey



## Chapter 4: From the Fixed Income TCA Survey

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