

MarketAxess uses unique data to improve client-to-dealer liquidity matching and best execution

Anju Sima, UK client and sales lead at MarketAxess, tells The TRADE about the firm's newly launched Smart Select mechanism, which uses the firm's unique data sets and automation technology to help buy-side clients optimise liquidity provider selection.

What is Smart Select and why is it so significant?

Anju Sima: Put simply, it is a smarter, faster, data-driven approach to selecting the right liquidity provider. By layering clever selection criteria on top of our broad trading and transaction data, we can help buy-side clients to quickly select the "optimal" dealer, or dealers, for their particular liquidity needs.

It's significant for a number of reasons. Firstly, it's providing a new way to unlock the potential of the unique data we provide – aggregated Trax transactional market-wide data and MarketAxess historical trade performance data – to improve liquidity discovery. It gives the trader greater confidence that the dealers in the lists can match their execution needs. Secondly, it can also be built into our automation mechanism – Auto-X – for low touch trading

aligned to pre-determined client priorities.

Our buy-side clients have certainly driven this development, but it's important to note that Smart Select can benefit both buy- and sell-side. For instance, by removing some of the natural human bias in dealer selection, it allows dealers with real, not presumed, historical performance and actual liquidity in a certain area to come to the forefront. As a result, we're sending dealers client inquiry that, they have told us, they care to price.

How is it different to other products on the market?

AS: I would say it's in the quality and depth of the data, and then how we look at that data to help the client make a decision. In analysing dealer compatibility, we look platform-wide across the top 75% of clients they serve – en-



Anju Sima, UK client and sales lead, MarketAxess



suring that we reflect their best liquidity profile to the client.

We also allow the client to search at the individual ISIN level,

bringing back dealers that are performing in that particular bond. We believe this to be unique; in other systems, the reliance tends to be simply on the historical data between the particular client and their top dealers, which means a high level of bias and a much narrower potential liquidity pool.

This really is a key differentiator. It means that client and dealer can both be assured of unbiased, data-driven matching with a high degree of accuracy.

What's the benefit to the sell-side?

AS: If we think about the fixed income trading landscape and where we've come from, it's clear that both the buy- and sell-side are looking to utilise data sources more constructively. In some ways, the market is also separating itself on both sides towards high- and low-touch trading.

For low-touch, a wider liquidity pool with greater overall competition drives better trade completion. However, with high-touch enquiries both the buy- and sell-side are in agreement about the need to be more specific to ensure that the selection process encompasses dealers that truly want to act and want to respond. This whole process is about creating the right liquidity off the back of that need, to the benefit of all participants.

How is it improving traders' performance?

AS: There are two key ways to improve overall performance – increase the likelihood of execution completion and enhance the workflow efficiency. Looking specifically at execution, getting a dealer whose profile means they're likely to want to respond, because they are axed in it, care in it, or have historically performed

well in it, leads to more liquidity, thus improving the likelihood of execution. The efficiency angle is around the system actively suggesting dealers for you, thus saving time and resource for traders who previously may have had to carry out vast amounts of research before making those kinds of decisions.

How has the new fixed income liquidity and data landscape influenced its development?

AS: It's often said, but no less true, that MiFID II was a watershed moment for the industry. We're now in a much more data-driven and technology-savvy world. Yet MiFID II mandates, such as approved reporting arrangements (APAs), didn't deliver the "big" data that the industry expected. So, clients looked increasingly to us to source, aggregate, curate and deliver the data they need.

Technology is advancing quickly on both sides. The sell-side is increasingly starting to realise the importance of analysing multiple data sources simultaneously, through the use of more algorithms, and new technologies such as artificial intelligence, in order to create a price more efficiently. While the buy-side is using new tech-driven strategies, like low-touch trading, to increase efficiency and improve alpha generation.

And of course, to make these strategies work, what they need is liquidity – access to counterparties with the right bond or the right price, at the right time. That is core to the MarketAxess value proposition, and why Smart Select exists.

How has it been received by clients?

AS: Smart Select is currently in the pilot phase and has been rolled

out to around 20 clients so far, and I'm pleased to say it has been very positively received. I have found that users are very intrigued in the fact that by pressing the button the system is highlighting the appropriate dealers, and by hovering over the selected names, the system gives a reason as to why they have been selected.

It has also been interesting to see that users have found the dealers are not necessarily the ones they would have picked, for various reasons, but Smart Select is bringing those dealers to light due to the data around historical performance in specific bonds.

How does Smart Select fit in with MarketAxess' overall evolution?

AS: The evolution of MarketAxess is very much about producing innovative solutions to create more liquidity for both buy- and sell-sides, and that's ultimately what Smart Select is. We have worked closely with the buy- and sell-side to create more liquidity, by matching inquiries to a dealer who wants to price it, in a more efficient manner, particularly in light of the more challenging trading environment that fixed income participants find themselves working in today.

Smart Select is a milestone in the journey for electronic trading in fixed income. It reflects our ongoing efforts to harness more machine learning, more artificial intelligence, and more diverse data sources to help build the optimum trading environment for all participants. And there is so much we can still do – global fixed income markets are unique, and we're still only in the early stages of applying technology innovation to how they work. It's no exaggeration to say we're excited about what comes next.