Is it Time for a Reg NMS for Bonds?

Enhanced Pre-Trade Transparency: A Logical Next Step

By Michael Ruvo, President & CEO, BondWave

Transparency continues to dominate the dialogue in fixed income markets and with this, one thing is for certain – data is king. Recent M&A activity, such as LSEG and S&P's pending acquisitions of Refinitiv and IHS Markit, along with large data companies paying extremely high multiples for execution venues has put the focus squarely on data and its role in expanding transparency and improving liquidity. This year also saw one of the first initiatives in recent history to reduce transparency with the Fixed Income Market Structure Advisory Committee's pilot project to delay dissemination of large block trades, which ended up being largely shot down by market participants.

As the fixed income markets continue to look to the equity markets as a baseline for market structure evolution, one would think pre-trade data would be the next logical area of focus. Currently, no centralized repository exists for pre-trade bids and offers like it does for post-trade execution data via FINRA's TRACE and the MSRB's RTRS services where all market participants are able to benefit from centralized access to critical transaction data. Further, this type of centralized repository would lay the foundation for a National Best Bid and Offer (NBBO) for bonds and, with it, the concept of protected quotes while providing centralized access to the various and bifurcated sources of liquidity. In addition, this more complete pre- and post-trade data set could be utilized and applied to advanced technologies and data science to provide added context and drive more advanced insights to better understand true transaction costs.

Looking at the current number of possible sources of pre-trade data can be overwhelming as significant overlap exists among the various providers. In addition, message and voice scraping technologies have evolved to add even more data to the transaction ecosystem. As part of BondWave's ongoing Trade Insights series, we regularly analyze both pre- and post-trade data to draw insights. In many cases, we find a large number of "aspirational" bids and offers, often making it difficult to determine "what is real and what is Memorex" – a challenge for any vendor or market participant trying to deal with the myriad of data sources.

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As someone who has spent 25 years in fixed income data and technology, I have seen the evolution from hard copy binders, directories and floppy disks to CDs and web-based services. We as an industry have also witnessed the development of centralized systems for dissemination of critical data such as the SEC's EDGAR, FINRA's TRACE and the MSRB's EMMA databases, all of which have greatly increased both the amount of data available and access to it. Businesses continue to leverage this data to advance markets through new and innovative solutions, and the broader availability of pre-trade data would help complete the transaction data set for all market participants.

As with most advancements to market structure, regulation will likely be a driver and in turn lead to increased transparency initiatives. Any resulting changes, however, must certainly consider the few remaining firms who still take risk and are vital to maintaining market liquidity. Therefore, a focus on pre-trade data seems to be a logical next step in providing the data foundation to enable a Reg NMS for bonds. As someone who has heard this idea discussed for the last 10+ years, I ask myself, "Has the time finally come?"

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ABOUT BONDWAVE LLC

Founded in 2001, BondWave, an affiliate of First Trust Portfolios, is a financial technology company specializing in fixed income solutions. We serve a wide range of customers, from small independent RIAs to some of the largest broker-dealers and custody providers in the financial services industry. Traders, portfolio and asset managers, advisors and compliance professionals use our tools to provide a superior fixed income experience to their clients while supporting critical compliance mandates.

Effi™, our Engine for Fixed Income, is the single platform through which we deliver all our solutions, including analytics and reporting, monitoring, trade opportunity mining, proposal generation, mark-up disclosure and oversight, best execution tools, and transaction cost analysis (TCA). BondWave leverages advanced data science and technologies to develop proprietary data that fuels our innovative solutions. We are agnostic to the liquidity pool or execution venue, so we can provide unbiased analytics that help our clients find the best bonds for their customers.

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