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## MarketAxess hopes data is (not so) secret weapon in Europe

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It's a good time to operate an electronic platform that allows investors to buy and sell bonds from and to one another. A big gap in the market is being left due to a fall in risk appetite among dealer banks, and those operating in Europe are set to receive an added boost from incoming regulation.

The EU's revised Markets in Financial Instruments Directive, or Mifid II, takes effect in 2018 and will force bond trades to be made public for the first time, which may well be the impetus European investors need to trade more frequently on platforms such as incumbents Bloomberg and Tradeweb.

But some believe their smaller rival MarketAxess could be a major beneficiary.

The group, which runs the largest electronic bond platform in the US, is already making headway in Europe.

In its third quarter results on October 26, MarketAxess said volumes traded by European clients grew to \$70 billion, up 75% on the same period in 2015. In eurobonds specifically, its volumes grew by 54% during the period, compared with a 3% growth in that market as a whole based on estimated volumes.

One of the factors setting it apart from rivals is its lesser-known European bond data business called Trax. The data Trax is gathering is already giving investors the confidence to trade on MarketAxess's platform rather than through dealers and more than 40 buy-side and sell-side firms have expressed an interest in using Trax as their Mifid II reporting provider.

"They've [MarketAxess] made a concerted effort in Europe, placed a lot of value on their data and it seems to be gaining traction."

### Making Trax

Data has become a key issue for European bond investors. Unlike in the US, details of European bond trades are not publicly reported and only sent to regulators. The retreat of dealers has therefore left European investors holding the majority of outstanding bonds without certainty of what a fair price is for them.

It was an issue flagged up by Vanguard, which manages assets worth over \$3.6 trillion, in a report published on October 18. It said that "continuous price-setting, similar to that experienced in the move to electronic trading in equity markets" was a factor needed to shift fixed-income markets towards electronic channels.

MarketAxess reckons it has an answer to the issue because it has an electronic trading platform as well as Trax, with the latter estimated to process around 65% of Europe's fixed-income transactions on a daily basis via matching and regulatory reporting services. In the absence of a public tape of European bond deals, similar to Trace run by Finra in the US, Trax has developed its own.

Scott Eaton, MarketAxess's European chief operating officer since June 2015, described Trax as a "differentiator for us", adding it was "permitting price discovery by the buy-side, who traditionally have not had the capacity for price making".

It is not the only firm bringing more light to Europe's opaque bond markets. Other big data providers include Intercontinental Exchange's Interactive Data unit, Thomson Reuters and Bloomberg.

What makes MarketAxess's data unique is that it is all transactions-based and is being integrated directly with a trading platform, an area where the group already has form: the success of its US credit venue has been partly due to its ability to make Trace data user-friendly for trading purposes.

Eaton said Trax data had proved particularly key to the initial growth of the group's Open Trading platform, an 'all-to-all' system that allows investors to trade with one another as well as dealers. Historically, trading has only happened between

dealers, or between dealers and clients.

MarketAxess launched Open Trading for European credit in January 2015, and tapping more of this market could be lucrative, given its growth. During the third quarter of 2016, European clients traded an average of \$99 million of fixed-income products through the system on a daily basis, up 230% on 2015. Globally, average daily trading volumes in the system were \$687 million during the quarter, up 90%, and it accounted for almost 14% of MarketAxess's overall trading activity.

Eaton said: "There are limitations on what dealers can do now so there's a requirement to allow people holding the money to come together through things like Open Trading."

#### Charting the challenges

The problem with all-to-all trading, as the failed Bondcube platform found to its cost, is that when two buy-side firms match up they can struggle to agree on a price without a dealer in the middle.

Eaton said Trax data gives investors information that allows them to "form a price and thoughtfully approach the market".

However, Eaton believes there is "no one protocol that is going to win the day" and re-iterated the importance of the traditional request-for-quote system, whereby investors demand prices from several dealers before picking the best one. The market convention in Europe had been to go to six dealers for a quote, but MarketAxess is still the only European bond platform to have removed this cap and allow investors to go to as many people as they want to.

"We think if you go to a broad array in a world when liquidity is constrained then the chance of finding a counterparty increases," Eaton said.

It is that sort of flexibility that has won praise from clients. Stephen Grady, global head of trading at UK money manager Legal & General Investment Management, said: "Their strength is not necessarily the all-to-all offering specifically, it is the priority they give to delivering client-focused functionality and the flexibility to express different trading approaches within the protocols they provide."

Yet, challenges still remain in bringing electronic trading to a predominantly a voice-executed credit market and MarketAxess still has a way to go truly rival the market dominance of Bloomberg in Europe.

The majority of MarketAxess's European activity is also in the €1 million to €3 million bucket. Block trades – those above £5 million – are around 10% of its activity and remain the preserve of dealers. And that is before mentioning the threat of new platforms, which could benefit from Mifid II's new data from 2018.

Eaton says the group is "very mindful of competitors" but he believes new platforms will need to be "truly unique to attract the attention of the market" and re-iterates the group's key selling points: "We're fully independent and public, we're focused on credit and trading is at the core of who we are".

Eaton himself is a MarketAxess convert. When he was approached about joining in 2014 he knew little about Trax: "I had that classic trader view of the world, everything stops at my trading screen and I couldn't care less about what went on beyond that."

However, a positive experience of using MarketAxess's trading platform while running central and eastern European trading at UniCredit, and meetings, particularly with the group's chairman and CEO Rick McVey and Chris Smith, head of Trax and operations services, convinced him to join.

"At a bank, back and middle office functions are an expense, but here you realise it is a major business that requires sophisticated technology and infrastructure."

Read more: <http://www.efinancialnews.com/story/2016-11-01/marketaxess-puts-data-at-heart-of-european-push?mod=home-top>