



Developing Pre-Trade Corporate Bond Transparency

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FIXED INCOME MARKET DATA

While modern markets rely heavily on solutions driven by market data, the environment for the US corporate bond market is characterized by:



Fragmented, non-standard, institutional pricing data



Asymmetric information

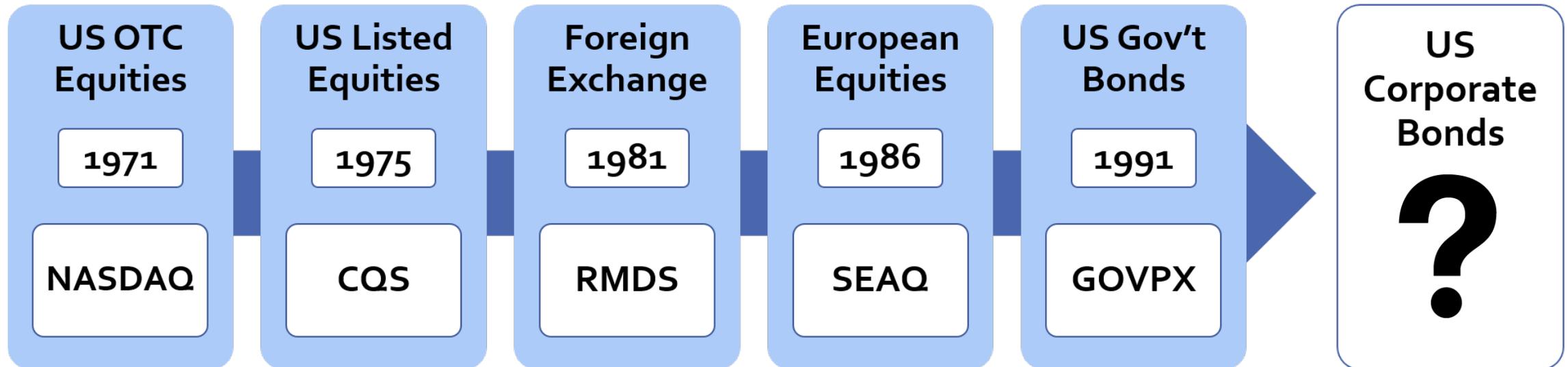
These conditions reduce reliable liquidity in the institutional market

The right pre-trade transparency methodology will improve the quality of secondary market liquidity for block trading

WHAT IS A CONSOLIDATED QUOTE SYSTEM?

- Non-executable, electronic bulletin board of dealer quotes
- Up-to-date bid and ask prices organized into a montage
- Buy-side sees quotes with size details – Sell-side sees anonymous prices

Architecture has proven to be **critical to financial market development**



INTENDED IMPACT OF PRE-TRADE EFFORT

The consolidated quote methodology for enhancing pre-trade transparency:



Helps Market Makers optimize balance sheet usage



Improves institutional pricing data integrity for buy-side clients



Reduces adverse information asymmetry for all participants

This combination of results will **improve liquidity conditions for the institutional corporate bond market**

KEYS TO ESTABLISHING BETTER PRICING DATA



Customer order flow must be LINKED to market maker price proficiency

Establish a competitive environment for market maker quoting



Pricing information must be standardized to ensure integrity and accuracy

Create requirements for making a quote available to market



All market participants must see the same price at the same time

Price information must be centralized and made available to all

Adhering to these principles will produce higher-quality pricing data for the institutional corporate bond market

FREQUENTLY ASKED QUESTIONS (WITH ANSWERS)

1) Isn't the corporate bond market too fragmented for this to work?

 Quote consolidation is appropriate for the most active names and large issue sizes. These bonds account for most of the volume but are a fraction of the total outstanding CUSIPs (~3,500 bonds out of 39,000 CUSIPs).

2) Will the increased pre-trade transparency hurt market-making?

 No, the commercial prospects for market makers improves because dealers will be able to accurately price risk for institutional trading, increase inventory velocity, and expand the scope of their coverage (trade more bonds).

3) Why hasn't this worked before?

 Quote consolidation has been a proven solution to improve transparency and liquidity conditions in other markets, but it has never been attempted in the US corporate bond market (or any corporate bond market).