Inside Market Data

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SPECIAL REPORT

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LETTER FROM THE EDITOR

The Name's Bond...

While Ian Fleming's fictional spy James Bond has remained a constant, the actors portraying him on screen have changed over the years, from Sean Connery to Daniel Craig. Similarly, in the world of fixed income, we refer loosely to "bonds" as an asset class, comprising assets that vary considerably, from rock-solid government and municipal bonds to various asset-backed securities.

And while we generalize about the "credit crunch" stemming from fixed income markets, in an age when one can securitize pretty much anything, it's the quality of the underlying that contributes to the value of each contract. For example, a contract comprising mortgages on over-valued properties sold to people who can't afford to pay off the loan stands a better chance of defaulting than a blue-chip multinational or a government institution.

Though there are strict rules about the information a dealer must disclose when selling a security, the key to any decision to buy or sell a bond—especially those that are less liquid or traded completely over-the-counter, rather than on exchange-like multi-dealer platforms—is each counterparty having detailed data and robust analytics on the contract itself, its underlying, and any data inputs used to value both. The buy side is now increasingly demanding this data from vendors and dealers, and is forcing firms to justify and defend their valuations.

For example, according to Lee Sanders of AXA Investment Managers, investors and traders are looking more closely at potential investments—even down to the underlying terms and conditions—and working harder to determine the "true value" of fixed income assets.

Also in this report, Damian Burleigh of Standard & Poor's describes some of the ways that vendors are responding to these needs, and the products being brought to market to provide deeper analysis, while Christine Sheeka of MTS Data outlines how firms are seeking new ways to derive more value from existing datasets.

Trading volumes are rising again, as is investor confidence in fixed income, with both the London Stock Exchange and Singapore Exchange launching new retail bond markets this year. But with the threat of over-extension into a double-dip recession, only verifiable data and solid business practices will ensure this confidence is well-founded, and not the kind of swagger seen in second-rate spy movies. ■

Max Bowie
Editor, *Inside Market Data*

Inside Market Data

Max Bowie, **Editor**
Tel: +1 212 457 7768
max.bowie@incisivemedia.com

Jean-Paul Carbonnier, **Deputy Editor**
Tel: +44 (0)20 7968 4588
jp.carbonnier@incisivemedia.com

Vicki Chan, **US Reporter**
Tel: +1 212 457 7758
vicki.chan@incisivemedia.com

Lee Hartt, **Publishing Director**
Tel: +44 (0)20 7484 9907
lee.hartt@incisivemedia.com

Jo Garvey, **Commercial Director**
Tel: +1 212 457 7745
jo.garvey@incisivemedia.com

Chadi Antonios, **Business Development Executive**
Tel: +1 212 457 7747
chadi.antonios@incisivemedia.com

Elina Patler, **Head of Editorial Operations**
Brett Gamston, **Subeditor (London)**
Matthew Crabbe, **Managing Director**

Claire Light, **Marketing Manager**
Tel: +44 (0)20 7004 7450
claire.light@incisivemedia.com

Incisive Media
120 Broadway, 5th Floor
New York, NY 10271
Tel: +1 212 457 9400
Fax: +1 646 417 7705

Incisive Media
Haymarket House
28-29 Haymarket
London SW1Y 4RX
Tel: +44 (0)870 240 8859
Fax: +44 (0)20 7484 9932
E-mail: customerservices@incisivemedia.com

Incisive Media
20th Floor, Admiralty Centre, Tower 2
18 Harcourt Road, Admiralty
Hong Kong
Tel: +852 3411 4888
Fax: +852 3411 4811

FINRA, MSRB Tackle Muni Disclosures

US regulator FINRA and the Municipal Securities Rulemaking Board recently issued a notice "reminding" dealers trading municipal bonds of fair pricing and disclosure obligations, after FINRA expressed "concerns that firms may not completely understand their obligations with respect to the disclosure of material information to customers at the time of trade."

The notice orders firms involved in primary offerings and the secondary market to ensure that they collect, analyze and disclose all relevant information, including statements, disclosures, trade data and other information distributed via the MSRB's Electronic Municipal Market Access system and other sources at the time of trade, and should ensure their procedures are adequate to collect all material information, while a "fair and reasonable" price should bear "a reasonable relationship to the prevailing market price of the security," such as trade data disseminated via the MSRB's Real-time Transaction Reporting System.

The FINRA and MSRB notice also states that firms must inform clients of credit ratings and related information about municipal securities and their liquidity providers, but that dealers "should not rely solely on credit ratings as a substitute for their own assessment of a security's credit risk," and should familiarize themselves with the different rating systems used by each agency. ■

Agência Estado Updates Data Terminal with Brazil Bonds

Brazilian data vendor Agência Estado is preparing to launch a new version of its AE Broadcast market data workstation, which will feature new capabilities including an add-in for capturing contributed data from spreadsheet pricing engines, and a fixed-income analytics module that includes pricing calculators for local bond issues.

The new Microsoft Excel add-in, dubbed AE Link, which allows users to contribute prices for over-the-counter instruments directly from their spreadsheet pricing models to other users of AE Broadcast. AE Link will be rolled out in three phases, with the first phase available later this year and subsequent releases adding support for additional asset classes. "The first phase will focus on foreign exchange, the second on local fixed income, and the third on OTC-traded commodities markets," says Daniel Parke, managing director at Agência Estado in São Paulo.

Although AE Link users will be able to distribute pricing data across the entire community of AE Broadcast data display users, the contribution module will also contain entitlement controls that allow them to restrict access to certain users. "If a bank does not want its rival to see their FX pricing, they can turn off access," Parke says.

Agência Estado is also adding a new set of bond calculators to its desktop terminal that will allow users to derive prices for local LTN [Letras do Tesouro Nacional] and NTN [Notas do Tesouro Nacional] government bonds and notes based on factors such as the value and frequency of coupon payments, time to maturity and the prevailing risk-free market interest rate. "Our fixed-income coverage is excellent when it comes to news, but not as developed when it comes to securities pricing... this is our first big splash at getting into OTC pricing analytics," Parke says.

The new release, Version 4.2, is scheduled for launch in October. ■

Cassovia Eyes Bonds, FX, Futures with TimeScape

Edison, NJ-based proprietary trading startup Cassovia is using data technology vendor Xenomorph's TimeScape product to support analysis of trading strategies for new asset classes—including corporate bonds, futures and foreign exchange—in addition to its existing equity trading strategies.

Cassovia, which has less than half a million dollars in assets under management, originally deployed the data management and analysis platform to help develop, test and optimize its equity trading models after launching last summer, says Cassovia principal Frantisek Kovac.

The firm uses TimeScape to perform fundamental and technical analyses on live data for the constituents of the S&P 500 index, sourced from TradeStation, as well as up to 15 years' worth of economic and fundamental data sourced from Bloomberg and Capital IQ, to identify positive long-term fundamental cycles and short-term price momentum.

Cassovia previously used Microsoft Excel spreadsheets for storing, back-testing and analyzing data, which was labor-intensive and time-consuming, particularly when performing strategy optimization, which involves changing the parameters of a model and running it on historical data to see how the changes would affect results and capital requirements, Kovac says.

"Storing and trying to analyze such a massive amount of data in Excel quickly becomes unwieldy," says Mark Woodgate, founding partner at Xenomorph. "By pulling the data off the spreadsheets and into TimeScape, Cassovia can run its analyses in bulk and then export only the consolidated results into Excel for further analysis."

Much of Cassovia's data is updated daily after market with end-of-day stock prices from Bloomberg and TradeStation, as well as updated fundamental data from Capital IQ whenever a company issues an earnings announcement, Kovac says. Uploading the end-of-day and fundamental data into a single database is simpler than working with Excel, while TimeScape also provides an audit trail of any changes made to the data, which is increasingly important considering the growing regulatory pressure around risk management, Woodgate says. ■

S&P Bows Risk-to-Price Models

Standard & Poor's Valuation and Risk Strategies (VaRS) division recently launched Risk-to-Price (R2P), which evaluates the risk-adjusted returns of corporate bonds, to quantify how well investors are compensated for their willingness to take risk, providing a more predictive and granular measure of underlying risk in their portfolios.

Though credit risk is traditionally measured on a yield-to-maturity basis, portfolio managers and risk officers tend to be "yield-to-worst" investors, managing risk to ensure that yield requirements are still met in worst-case scenarios, says Michael Thompson, managing director and head of research for S&P's VaRS division. "Investors want greater granularity in the underlying risk and to understand the risk in terms of the price that a security exists at today, and not some far-dated estimate of risk based on yield-to-maturity," he says.

The formula for calculating R2P requires a bond's option-adjusted spread, volatility and a quantitative estimate of credit risk, each of which requires underlying pricing, terms and conditions and fundamental data, as well as CUSIP and ISIN identifiers—most of which is owned by S&P. S&The vendor can calculate a daily R2P score for any publicly traded debt, and also tracks scores over time, enabling users to export up to two years' worth of historical data into their own analytics.

R2P scores around 6,000 US and European corporate bonds using several criteria and then groups each issue into quartiles, with bonds in the top quartile expected to deliver the best returns once risks have been taken into account. Thomson says that over the past five years, securities within Quartile 1—those with the highest R2P scores—have outperformed securities in Quartile 4 by more than 400 basis points. The vendor also plans to develop models for euro sovereign and Asia- Pacific bonds.

Telekurs Buys CSV to Grow Evaluated Pricing

Earlier this year, SIX Telekurs acquired the assets of CSV (Complex Security Valuations), a Ridgefield, Conn.-based provider of evaluated prices for illiquid securities and complex derivatives, for an undisclosed sum, to expand its evaluated pricing business.

At the time of the deal, Telekurs' Fair Value Pricing service priced around 110,000 fixed-income securities, while CSV—whose data Telekurs had already distributed for more than a year—priced around 51,000 instruments on behalf of Telekurs for clients.

"Most of our evaluated services were redistributed from other providers, but we realized that we needed our own methodology," says Barry Raskin, managing director of SIX Telekurs in the Americas. "This puts us on a different level than before, and it is important to have proprietary content that... you have control over, rather than being dependent on a supplier."

Although other vendors, such as Interactive Data and Thomson Reuters, have beefed up their own pricing services over the past year, Raskin says the move was driven by client demand—which is creating growth across the evaluated pricing sector—rather than concerns about competing with other vendors.

"There is a clear and growing need to value not just vanilla fixed income bonds but complex products like swaps," Raskin says. "There is an environment of compliance driving demand, and people will dual source or triple source to protect themselves from... holding bad assets that are valued incorrectly."

Thomson Reuters Re-Organizes Credit News Ops

Thomson Reuters is reorganizing its fixed income news, with its IFR news operation—originally part of Thomson Financial—taking over credit market reporting from Reuters News to strengthen its coverage of an asset class traditionally seen as a stronghold for rival Bloomberg.

According to a memo sent to staff on Aug. 17, the new structure will create "a more compelling desktop offering in the credit space" and eliminate internal competition between the vendor's brands—IFR, Thomson Reuters LPC (formerly Loan Pricing Corp.) and Reuters News' teams covering company news, financial markets and investment strategy.

Until now, IFR's coverage of the credit markets has been provided as an add-on subscription to users of various market data terminals, including those from Thomson Reuters and rival Bloomberg, which will remain an IFR distribution partner, a Thomson Reuters spokesperson says. Once the changes take effect in the fourth quarter of this year, the vendor will offer bundled access to IFR's credit market news to users of Thomson Reuters' new Eikon desktop terminal at no additional cost, though the vendor will continue to provide the content via the vendor's other desktop terminals—such as 3000 Xtra and Thomson One—under existing IFR client agreements, the spokesperson says.

According to the memo, IFR credit stories appearing on Thomson Reuters' desktop terminal products will maintain their own "style, brand and dateline," and be subject to slightly different reporting rules from the Reuters News organization.

At present, there are no plans for IFR to take over coverage of foreign exchange and government bond markets from Reuters News, as "the two services provide very different content on forex and rates, unlike in credit [markets] where they competed head-on," while Reuters News will also maintain coverage of company, sector and market trend analyses and "credit-related themes" within its coverage of companies and the financial industry as a whole.

SPONSOR'S STATEMENT

Getting the Most Out of Data

How many ways can you use a data source to extract the maximum return on cost of data. Christine Sheeka, market data product manager at MTS, discusses the challenges facing firms who are looking for new and more efficient uses for data, and investigating how to extract additional value from existing datasets


Christine Sheeka
MTS

I don't know about you, but I'm hearing people talk about fixed income a lot more nowadays. Always popular, never mind critical, the increase in demand we have seen at MTS has been more than noticeable over the last 18 to 24 months. Sometimes these requests come from surprising quarters, asking not just where data can be found, but also how it can be used.

It's a commonly-held belief that fixed income data can be more difficult than other asset classes to source. These assets often still trade significant amounts in the over-the-counter markets—depending on the instrument—so how and where do you find reliable pricing, and what will you be permitted to do with it once you have it?

At MTS, we facilitate electronic trading for predominantly European government and quasi-government bonds, and the advantage of being an electronic market is the flow of data you see every second, every minute, of every trading day. Coupled with MTS's continuous, executable-only pricing MTS, it is a very attractive option for anyone interested in government and quasi-government debt.

The increase in demand we have seen has been across the board—from vendors looking to distribute MTS data in response to client requests, to current users looking for the additional data products we offer, and new users who are looking to improve on the fixed income data they currently use, or looking to get into the fixed income market for the first time. Certainly, it is an exciting time for MTS and other providers of fixed income data.

But how can we best serve these needs, and what are these clients really looking for? Compliance roles have taken a higher priority in the last couple of years, which has filtered down to how firms source and use data. People are starting to question the data they see on their screens. The pricing sources that their predecessors have always used might be the reason those sources are still used today, but is that enough? Where does that price come from? Is it indicative, executable, or calculated? What is the source, and how reliable and independent is it? These are all crucial questions that need to be answered if you and your bottom line are relying on that price.

Once you know what it is and where it's from, do you know what you can do with it? Every exchange or price source has different data usage policies, so you need to know how compliant your data usage is.

"Users are coming to us... looking for new ways to use the data they receive from MTS: How can they extract the most value from MTS data, and what will we license them to do."

A lot of our users are coming to us to help them answer these questions, and at the same time are looking for new ways to use the data they receive from MTS: How can they extract the maximum value out of MTS data, and what will we licence them to do—"new uses for old data," so to speak.

Much of the traditional use of MTS data remains unchanged—traders looking at real-time data, or portfolio managers using snapshot data, etc. However, we have seen an increased focus on the use of MTS data for risk management, compliance and monitoring, as well as an increased interest from firms with atypical data requirements and usage.

Just as for any organization serving financial institutions, client demand drives and impacts our product development, and it was this demand that prompted MTS to develop and launch new data usage policies, such as licensing for non-display data usage or historical storage.

Benchmark Quality

At the same time, we have continued to invest in our technology and product development. Our data is taken direct from the MTS trading platform, so maintaining investment and development in our technology has a direct impact on our data. Maintaining the highest-quality data production allows us to build benchmark-quality, robust data products and a wider range of products to meet client needs.

The low-latency discussions we've all been part of in recent years have also begun to home in on fixed income. It's up to all exchanges and providers to continue to develop richer, faster data, but in tandem, to also develop products for different users and usage types. While we all see an increase in demand for fixed income data, it is happening at a time when there is greater scrutiny on data quality and reliability—a natural reaction to the last couple of years—and these are issues that we all need to be aware of.

So are these all new uses for old data? Not exactly, but there is an evolution underway, and we all need to evolve alongside it, to make sure we can all serve our clients in a way where everyone profits. It's going to be a busy couple of years, and we're looking forward to it.

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YEARS SERVING YOUR MARKET DATA COMMUNITY

Launched in 1985, **Inside Market Data** has followed developments in the $20+ billion financial information industry with objective, accurate and timely reporting by providing a concise overview of developments in this fast-moving business. **Inside Market Data** was the first, and remains the only newsletter dedicated to these markets.

To mark our 25 years as the premium news provider covering the financial market data industry, **Inside Market Data** will publish a special anniversary issue in October 2010. Many firms and faces have come and gone over the past quarter of a century and our special report will reflect on the 25 individuals who have made the biggest impact on the market data industry over the past 25 years. Also on our website we will feature more retrospective articles and videos – visit www.insidemarketdata.com/25

To mark the occasion we will be hosting a party at the Hudson Hotel in New York City on October 25, 2010.

If you would like to be involved and show your support to mark 25 years of **Inside Market Data**, contact Jo Garvey on +1 212 457 7745 or email jo.garvey@incisivemedia.com.

For more general information about our forth-coming party please email IMD25@incisivemedia.com.

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Piecing Together the Credit Data Puzzle

Liquidity is returning to the fixed income markets after the Credit Crunch and ensuing drop-off in debt issuance, with the popularity of cash instruments in particular rising as cautious investors seek out safe assets. But is this being reflected in increased demand for more detailed data on these instruments, and what steps is the industry taking to ensure it has sufficient information and analytics in place to avoid another credit collapse?

IMD: What impact has the financial crisis and subsequent activity—such as bond issuance levels and the downgrading of Greece's credit rating—had on fixed income trading volumes and demand for market data?

Josh Feldstein, market and reference data consultant: Throughout 2009 and part of 2010, there was a serious reduction in many areas of fixed income trading. Concern about the status of Fanny Mae and Freddie Mac, what the Federal Open Market Committee position would be vis-a-vis the targeting of certain interest rates such as Fed Funds and their regulating of the money supply, the uncertainty of the size of the US deficit and national debt, and the liquidity issues regarding MBIA and AMBAC, put many people on the sidelines. The debt crisis in Greece only exacerbated the situation, underscoring the globalized nature of our markets. However, in recent months we have seen an increase in fixed income trading, borne out by a recent study conducted by Greenwich Associates. Some areas have stabilized in the last few months, which has engendered an increase in trading from many hedge funds. But the increase is largely in treasuries and other securities thought to fall within the "flight to quality" category.

Lee Sanders, head of fixed income and foreign exchange execution, AXA Investment Managers: After the Lehman debacle, trading volumes dropped significantly and there was a quick round of government-guaranteed issuance by banks, and a lot of corporations decided not to bring debt to market. But now issuance is through the roof as issuers look to lock in long-term debt, while obviously government issuance needs to be high to fund the deficit. But it has caused more problems is in Greece, Ireland, etc., around countries' credit ratings, the demand for paper, and the flight to quality.

So generally, trading volumes have been quite high over the last year, and are now back to the levels we saw in 2006 and 2007. The market overall seems to be getting increasingly nervous that we will see some kind of double-dip, but we have a good two-way market in bonds.

There has been a lot of demand for pre-trade information.... We have access to a lot of counterparties, a lot of different runs, trading systems and ECNs... to get an idea of where a bond should be trading, which might be harder for smaller investment managers to obtain. But the market has changed—we don't just hit any bid,

"We have seen more activity on the secondary market and a rise in bond issuance levels, mainly due to governments' mandate to banks to cover more collateral.... From the market data point of view, during this period we have seen an increase in the demand for reliable, high-quality market data."

Christine Sheeka, market data product manager, MTS Data

but now we put an offer out there and see where the liquidity is. Also, after Lehman's collapse, people are not set up the way they used to be—they are no longer overweight in one market, but tend to be more diversified.

Anshuman Jaswal, senior analyst, Capital Markets, Celent: There had been a recovery in trading volumes in the latter half of 2009, but this situation was reversed by the uncertainty due to debt downgrading. The demand for market data has also been affected, but not as much as the trading volumes. We expect trading to recover towards the end of the year, as spreads improve and uncertainty surrounding sovereign debt reduces.

Damian Burleigh, managing director of Valuation and Rsk Srategies, EMEA, Standard & Poor's: The European bond market's reaction reflected a general market sentiment that risk in corporate and sovereign bonds was not fully priced-in. Contagion risk spread across the EU as the market evaluated two factors: (a) whether Greece could survive without default—a concern that quickly turned to whether the EU would actually bail out Greece or any other subsequent default—and (b) where the true counterparty risk lies for banks and investors if a ripple of defaults occurs through a multiple-event risk. Both investment-grade corporate and high-yield markets experienced a significant decrease in issuance as a result of these events, and investors and banks sought to understand what new counterparty risks they had and what new limits they may need to apply for lending or investing.

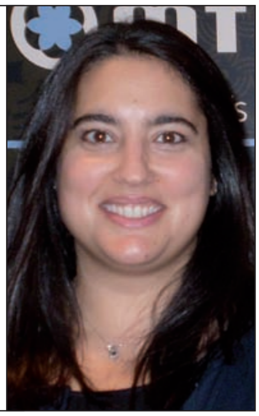
The need for relative-value analytics incorporating a view of both credit and market risk on corporate bonds is something that Standard & Poor's Valuation and Risk Strategies business had been reviewing and investing in as a methodology. S&P Valuation and Risk Strategies just launched a solution called Risk-to-Price, to assist Financial Services Authority-authorized professionals. This new relative benchmark is intended to aid investors in undertaking surveillance, bond selection and risk diversification for a fast-growing bonds universe, currently covering more than 6,000 corporate securities.

Researchers on the buy side and sell side, and at lenders, have increasingly asked themselves what is the "credit health" of the counterparties to various transactions. This question also gave S&P Valuation & Risk Strategies an impetus to deliver a credit health panel providing relative health evaluations of issuers, along with probability-of-default measures. Essentially a relative credit health map of 26,000 companies by industry can be drawn from this solution, representing what we believe to be a timely benchmark check when doing any form of analysis.

Christine Sheeka, market data product manager, MTS: We have to look at the levels of bond issuance and the downgrading of Greece as two separate issues. We have indeed seen more activity on the secondary market and a rise in bond issuance levels, mainly due to government mandates to banks to cover more collateral. However, the downgrading of Greece did not have an impact on the main market in the same way that crises such as Lehman Brothers or Bear Stearns did (Greece was an instance of country risk while the latter was a systemic risk).

MTS Data

Christine Sheeka
Product Manager, MTS Data
MTS
+44 20 7797 4100
Christine.sheeka@mtsmarkets.com
www.mtsmarkets.com



From the market data point of view, during this period we have seen an increase in the demand for reliable, high-quality market data. MTS's market structure provides constant executable pricing for the bonds traded on its platform. This continual source of benchmark data has been the key factor in the increased demand we have seen for our data. At the same time, there has been increased demand for more diverse market data usage. For example, clients have been requesting rights to distribute data internally to additional departments or even to their clients, to create additional datasets and to store and manipulate the data.

Charles Fiori, independent market and pricing data consultant, former vice president of JP Morgan Pricing Direct: I can't speak to specific trading levels, but I do believe that demand for market data has significantly increased—and even more significant is demand for clarity surrounding market data and content providers. Some of this has directly to do with market events, but I believe other reasons for the increased demand include latent demand and a recovery of the financial performance of sponsoring firms. In other words, firms have wanted to do more with their market data, and align the data they consume with the developing needs of the business, but this has not been a priority and firms have simply not had the budget available to take on additional vendors.

IMD: What particular fixed income instruments are especially in demand, and why? What are the challenges around sourcing data on those assets?

Sanders: We are doing less swaps business, such as credit default swaps, and more cash. People have returned to trading the underlying cash assets rather than the derivatives. There has also been demand for distressed funds, and those who were quick to launch in that area have done very well. People are now going into Gilts at an interest rate of 3.15 percent, but further down the line might take another look at high-yield if they decide it didn't blow up as much as they thought, though that could be risky if we do see a double-dip.

Because there is a return to people trying to capture flow business, it is hard to value CDOs (collateralized debt obligations) and CLOs (collateralized loan obligations), though CDSs have always been fairly liquid. The systems used to value and price these assets are very advanced these days, but for the value of the underlying bonds… people are going back to looking at the underlying covenants. People are looking much more closely at what they are investing in, and while you can price something synthetically, people are now looking at how they determine the true value of a bond.

Jaswal: The recent market environment has encouraged the growth of high-yield and distressed debt markets. The data for distressed debt is more difficult to provide and obtain, and we expect there to be some effort in this direction from the leading data providers.

> **"There is demand for treasuries for their credit quality... [and] great demand for municipals, whose historical default rate–even in the worst of times–has always been low.... There will also be demand for foreign debt as yields will be more attractive. But sourcing these securities presents greater challenges, given their illiquid nature and our lack of familiarity with viable sources for pricing and descriptive data, compared to our domestic markets."**
>
> Josh Feldstein, market and reference data consultant

Feldstein: There is demand for treasuries for their credit quality, though it's interesting to note that a few months ago Berkshire Hathaway issued two-year notes whose yield was lower than the two-year treasury. There is also great demand for municipals, whose historical default rate—even in the worst of times—has always been low. During the Great Depression, only 2 percent of all municipals went into default. Given the difficulties at MBIA and AMBAC, rates on those issues which they customarily insured will bear watching. Of equal interest will be the changes that Moody's and Fitch have instituted for what they call a "recalibration" of many municipal issues, in which the criteria used will be more closely aligned with that of corporate bonds. This will fall under the rubric of what they call a "Global Rating Scale." The rise in marginal tax rates should also increase the demand for these securities, and with upgrades in various issues, certain municipalities and certain issues (e.g., General Obligation bonds and more commonplace revenue bonds) will benefit by the lower net interest cost. There will also be greater demand for foreign debt as yields will be more attractive. But sourcing these securities presents greater challenges, given their illiquid nature and our lack of familiarity with viable sources for pricing and descriptive data, compared to our domestic markets.

STANDARD & POOR'S

Damian Burleigh
Managing Director of Valuation and Risk Strategies EMEA
Standard & Poor's
+44 20 7176 7176
damian_burleigh@standardandpoors.com
www.standardandpoors.com

Burleigh: Prior to the Greek crisis, Europe had seen the most sustained return to the high-yield market in the last 10 years. In contrast to the US, the European high-yield market is still small in terms of the number of issuers. However, as the crisis continued, there was a notable transition by investors in Europe to guaranteed government-backed securities, cash and commodities, which have historically provided relatively consistent returns. We also saw a shortening in appetite on corporate bond portfolio duration, moving from an average duration of five to three years. Pension liability matching continued with interest along the entire spectrum of bond duration, with even some recent interest by selected strategic investors on bonds with duration of 50 to 100 years (century bonds).

Overall, we believe the new issuance general decline in EMEA was caused by two factors: (a) issuers had largely forecast cash flow risk and had refinanced in late 2009 or early 2010, and (b) issuers had identified that they needed to compensate investors for higher levels of risk. S&P Global Data Solutions' counterparty cross-reference services combined with Risk-to-Price relative measures have gained interest from both risk professionals and portfolio managers. This is true for Risk-to-Price in particular, as it provides a service to portfolio managers doing relative value selection and simultaneously to risk managers, as it provides an independent opinion of risk on both issuers and securities.

Fiori: Assets that are toughest to value and for which there is not normally an active two-sided market are the ones where demand for market and pricing data will always be strong. I get the sense, though, that firms have either sold or already written down the value of some of these more tricky securities, so net-net there does not seem to be exploding demand for valuations, especially compared to at the time of the Bear Stearns announcement in March 2008 and for the following 12 months.

Sheeka: Sovereign debt, short-term trade and zero-coupon are in special demand at the moment. We have seen interest for trading on the grey market as well, with MTS BondVision offering access to certain bonds before they are issued. This is because in times of crisis, it is important to go to a trusted source of liquidity where the price is reliable and executable.

We understand it can often be difficult to source fixed income data, and certain areas—such as OTC markets—can be more challenging than others. If you add the fact that some of these bonds may or may not trade or be priced throughout the day, it can be difficult to know how reliable or up-to-date that price is. Having a continual source of executable pricing and market data can help overcome these challenges.

> **"In a situation where risk and uncertainty are higher than normal–where some of the requirements for electronic trading such as liquidity and low spreads cannot be met–trading often moves to voice brokerage.... However, we would not say that voice brokerage should be considered the benchmark source of fixed income data, as the market will improve and electronic trading volumes will rise again."**
>
> Anshuman Jaswal, senior analyst, Capital Markets, Celent

IMD: What model has the best success rate of execution and pricing—multi-dealer, single-dealer, B2B or B2C electronic platforms, or traditional voice brokerage—and should this be considered the benchmark source of fixed income data?

Sheeka: The current financial environment has brought the bond market to the forefront, becoming a topic of national interest. As a result there have been more discussions on the accessibility and availability of liquidity.

The multi-dealer platform is always the best, as it can serve both the buy side and sell side. BondVision, for example, caters to our buy-side clients, while the MTS platform is one of Europe's best sources of liquidity for the electronic fixed income market.

In addition, using electronic platforms [rather than voice brokerage] provides the opportunity for greater transparency and price discovery. The opportunity to see executable-only pricing from platforms such as MTS enables people to trade with greater confidence, while MTS Data provides real-time executable pricing with all trade and volume information.

Sanders: This is something we look at all the time on a case-by-case basis… but we've never used single-dealer platforms—we like to be able to prove best execution, and multi-dealer platforms allow us to do that.


Lee Sanders
AXA Investment Managers

The phone has also become a big tool again, as we've been doing a lot of negotiation over the phone, though we are now back to doing around 40 percent of our business electronically—we do a lot of corporate trading on Tradeweb and MarketAxess, for example, and these ECNs are very good as a benchmark source, as is Bloomberg. But we pull in data from lots of different counterparties to see where something is trading, and we have a system we developed internally to see where a price should be based on AXA's positions.

Now, fixed income is slowly going down the same road as equities, with algorithms, dark pools… and further down the road, that should result in some robust TCA (transaction cost analysis) data.

Feldstein: I'm not sure that there is a universal paradigm that would be applicable to all sub-asset classes. I don't think a single-dealer approach would work, as that would be antithetical to a market-based system. As for which platform is more effective, I think we'll continue to see an eclectic approach along the lines of what BGC Partners offers.

Fiori: I am not certain that the establishment of a "benchmark" source would be desirable, except of course to the entity being deemed to be that benchmark. The Markit multi-dealer model has its proponents, and rightly so, but being able to tie a delivered price or value directly to an input from a single dealer, such as the JP Morgan Pricing Direct model is also advisable. It will depend on the sector in question and the demands of the consumer. Over time, consumers of data and their auditors and internal controllers—assuming they do their own internal reviews of the data they consume—will be the best able to decide which provider should be their benchmark. That provider will likely be different for each sector.

As far as execution platforms (which create market data as the "exhaust" from trading), it will be up to the efforts of the platforms themselves—in conjunction with their community of users—to determine who becomes the benchmark. It is very difficult to move liquidity from one platform to another, but the different markets have shown over time that they do not want one platform to be super-dominant. There is also the successful re-development of the voice brokerage marketplace, which has been shown to operate quite symbiotically with electronic trading screens.

Jaswal: We believe that each model has its advantages and is suited to the different needs of market participants. In a situation where risk and uncertainty are higher than normal—where some of the requirements for electronic trading such as liquidity and low spreads cannot be met—trading often moves to voice brokerage. We had seen this in the aftermath of the financial crisis, and the situation repeated itself when the issue of sovereign debt arose. However, we would not go as far as saying that voice brokerage should be considered the benchmark source of fixed income data, as the market will improve and electronic trading volumes will rise again.

IMD: What new technologies, practices, or additional datasets or analytics could aid transparency around illiquid and hard-to-value assets?

Burleigh: For structured assets, loan-level data modeling will likely further enhance transparency, with the Bank of England and European Central Bank putting such measures in place from 2011 onwards. S&P already provides US loan-level data and analytics, and as the EMEA market opens up, will provide analytics on this new area for EMEA-domiciled assets.

Aside from just the loan-level data, however, robust credit models are needed to extract expectations on defaults and recoveries that respect the particular nuances of each pool of loans. In addition, we understand the market is looking to receive not only evaluated and/or model-based prices, but also the underlying inputs that generated those prices, as well as market data used to generate those inputs—especially for asset-backed securities.

Jaswal: I would agree with some of the recommendations of the Cassiopeia Committee regarding the corporate bond markets: Greater pre-trade transparency regarding the order book and prices is required, as is access to post-trade data. The technology that could make a difference already exists in other markets, especially the equity markets. It is a matter of there being a concerted effort over a period of time towards changing the status quo. New corporate bond trading platforms—such as those by TradingScreen and NYSE Euronext—are welcome steps in this direction, and should be followed by initiatives to improve market data availability.


Anshuman Jaswal
Celent

Sanders: The buy side always says it wants more information and additional datasets… to find more transparency around illiquid assets, such as trade frequency, volume at price, etc., but the banks don't always want to give up that information, because they want to protect their business—and while one always wants to see the whole picture, we're mindful that we need liquidity from dealers.

> **"There can still be problems getting the true value of bonds–for example, if a bond has not traded recently or if there is not a lot of information about it, then it is just a question of going around and around to get some kind of consensus of the fair value."**
>
> Lee Sanders, head of fixed income and foreign exchange execution, AXA Investment Managers

There are a lot of people trying to help in this space, but that doesn't replace legwork—any system is only as good as the prices coming into it. For example, our internal AXES system pulls in firm prices from the 20-odd banks we deal with, who send their axes in spreadsheets, from which we can either load a price into our order management system or can phone them up and negotiate on the basis of their axes.

But there can still be problems getting the true value of bonds—for example, if a bond has not traded recently or if there is not a lot of information about it, then it is just a question of going around and around to get some kind of consensus of the fair value.

Feldstein: As far as analytics are concerned, there will be times when various models will be better suited to certain securities than others. With listed securities, Black-Scholes or some derivation of it will be most suitable, or Monte Carlo simulations, for example, for many OTC and less liquid instruments—especially where the underlying value of the asset is difficult, if not impossible, to determine.

Sheeka: We see technology as a facilitator that can bring liquidity to the market as it helps meet evolving customer needs. At MTS, more than 50 percent of our investments go to R&D and technology, and our latest technology updates are a proof of the importance we place on listening to and serving our clients.

IMD: What trends do you expect to see around fixed income trading and data consumption over the coming year, and what will be driving these? For example, do you expect any regulation of credit derivatives to impact the popularity of certain fixed income classes?

Sanders: A day doesn't go by when I don't have a conversation about regulation, central clearing… and what the effect on the market will be.

To a degree, I like the centrally-cleared model—it makes sense in market risk terms to get risk away from banks' balance sheets—though banks don't like it because they would have to put up margin for every trade, which could impact liquidity.

ROUNDTABLE

> **"We believe relative value/risk benchmarking, combined with counterparty risk surveillance and stress-testing analytics, will be an increasing trend, reflecting expected increased regulatory oversight. We also expect that investors will seek to evaluate whether they are being properly compensated for the element of risk they are taking by holding an asset."**
>
> Damian Burleigh, managing director of Valuation and Risk Strategies, EMEA, Standard & Poor's

Whatever happens on the regulatory front, I think that as these unfold, it will be the biggest single impact of the year, and has the potential to create a lot of problems. I think regulation in the US will reflect on Europe, and then firms may look to Asia and other areas where they can work around any new regulations.

Feldstein: It's hard to predict the impact of financial regulation on these markets because we won't know—given the complexity of this legislation—what the nature and scope of the unintended consequences will be. I am concerned, however, that this legislation will create more problems than it was intended to resolve. The legislation on derivatives participants is sweeping, and I think it's a mistake to treat all participants monolithically. It makes no distinction between those who take a more speculative approach versus those who use derivatives solely for the purpose of managing risk. Whether this will curb the use of derivatives is difficult for me to predict, but the collateral requirements mandated could prove too onerous for some firms, precluding them from effectively managing their risk. If they do choose to meet those requirements, it may come at the expense of using that money to fund research and development and hire additional people.

Burleigh: We believe relative value/risk benchmarking, combined with counterparty risk surveillance and stress-testing analytics, will be an increasing trend, reflecting expected increased regulatory oversight. We also expect that investors will seek to evaluate whether they are being properly compensated for the element of risk they are taking by holding an asset. We believe Risk-to-Price is one tool that can aid investors as they attempt to evaluate these considerations. We believe market participants are more likely to employ multi-asset and cross-asset class analytics in an effort to redefine how they measure correlation risk and stress testing of various factors.

Jaswal: The levels of fixed income trading and especially electronic trading are expected to improve in the next few months. The main factors are an improvement in the economic scenario and initiatives such as those in retail bond trading by the London Stock Exchange, as well as the corporate bond trading platforms mentioned earlier. We expect some more measures with regard to regulation of credit derivatives, but this will not affect trading volumes too much. Similarly, the demand for market data will also pick up.

Charles Fiori
Consultant

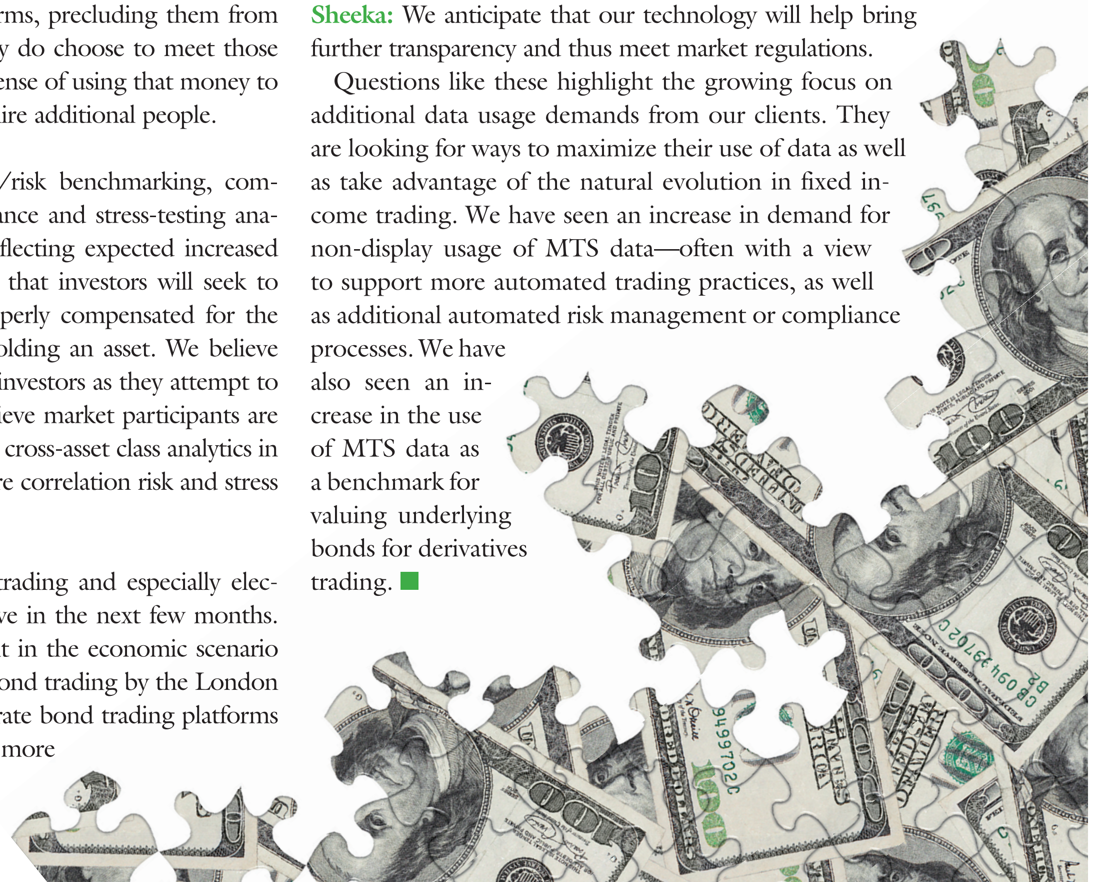
Fiori: Clients need guidance, and because vendors in general do not operate in a "partnership" mode—they sell data and field inquiries, but don't act as true "partners"—clients are looking to consultants to tell them what to do. There are, of course, many exceptions where clients and vendors have co-operated for years and where partnerships have been established, but this method of working is still not de rigueur.

I expect that in the next six to 12 months, major consumers of data will be looking more intensely than ever to those who understand the market, pricing, and reference data spaces to get them to where they want to be—consuming only the data that is absolutely required, in the areas of their organizations that really need it, at the level of frequency and quality that is appropriate. It's all about efficient use of funds—why spend on data that either is not being used or being consumed by the wrong desks or is at a level or frequency that doesn't make sense.

Only when consumers of data have a real plan in place for what data is needed throughout their organizations (which they can develop themselves or which may be developed using outside consultants) can they worry about who are the right providers.

Sheeka: We anticipate that our technology will help bring further transparency and thus meet market regulations.

Questions like these highlight the growing focus on additional data usage demands from our clients. They are looking for ways to maximize their use of data as well as take advantage of the natural evolution in fixed income trading. We have seen an increase in demand for non-display usage of MTS data—often with a view to support more automated trading practices, as well as additional automated risk management or compliance processes. We have also seen an increase in the use of MTS data as a benchmark for valuing underlying bonds for derivatives trading. ■



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