

Julia Royle, Liquidnet
Head of Marketing Communications, EMEA
+44 (0)20 7614 1626
jroyle@liquidnet.com

Holly Finn, Streets Consulting
Streets Consulting for Liquidnet EMEA
+44 (0)20 7959 2235
holly.finn@streetsconsulting.com

Advanced Tech will be Essential to Fixed Income Trading in a Post-MiFID II Marketplace, Study Reveals

A Liquidnet report highlights specific innovations that European bond dealing buy-side desks will need, including EMS adoption, message standardisation, artificial intelligence, and critical tech upgrades.

London, Embargoed until 19 March 2018: Liquidnet, the global institutional trading network, today published the results of a recent survey of global asset management firms that explores how MiFID II impacts the role of technology in trading corporate bonds. According to the study, titled '*Future Tech—Trading Bonds Post MiFID II*', 86% of respondent firms had technology in place to comply with the MiFID II European regulation implementation date. This is still a work in progress, however, with 86% of firms currently in the process of re-configuring workflows and 68% improving data collection.

"Historically, some European fixed income portfolio managers were seen as slow to appreciate the role bond dealing desks can play in implementing investment strategies and generating alpha," **said Rebecca Healey, Head of EMEA Market Structure for Liquidnet** and author of the report. "Firms are now beginning to recognise the central role technology plays in making workflows more efficient, allowing trading desks to better evaluate the true cost of execution and not solely focusing on the lowest price possible as that is not necessarily 'best execution.' This will ultimately help portfolio managers to build more resilient strategies that take liquidity conditions into account at the point of investment selection, not just execution."

Because fixed income has, until recently, underinvested in trading technology compared to equity markets, bond trading desks now find themselves at the forefront of this next step-change of systems that are capable of effectively managing aggregated liquidity sources. However, the overarching requirement for future fixed income technology will not be to replace existing technology, but to implement a flexible architecture capable of integrating with legacy technology as well as with future specialist innovation across the asset classes.

It is not only technological change that firms are addressing, but also behavioural change across organisations. Dealing desks now need to source liquidity from multiple locations as well as understand the optimal point of entry or exit of a trade—even utilising an alternative risk/reward bridge investment while waiting for improved liquidity sources to emerge.

Other key highlights from the research include:

- **Over three-quarters of respondents are planning to upgrade their technology solutions in 2018, in various ways;** 50% of respondents are implementing an EMS; 43% are upgrading their order management systems (OMS), and 10% are switching OMS providers.
- Of those looking to install an EMS, **94% are choosing to do so to manage liquidity.** However, the size of the firm plays a factor given the cost of implementation. 57% of small firms are not investing in an EMS at this stage, versus 64% of large firms who are investing.
- **76% of respondents are focusing on the need for standardised connectivity** throughout their workflows, as legacy technology makes the fluid flow of accurate data challenging.

In order for PMs and traders to leverage opportunities as they arise and meet regulatory obligations, firms must not only embrace technological change, but also instigate behavioural change across their organisations. Liquidnet foresees an extension of the role dealing desks play in implementing investment strategies from merely executing a PM's instructions to a true execution partnership, while still ensuring separate trading functions to avoid any perceived conflict between execution and advice. To achieve this, technology tools will be required in order to give greater control to the buy-side trader over the execution process.

"Basically, what the survey points to is that the main requirement for the corporate bond trading desk of the future is the ability to combine order management, data aggregation, and access to electronic liquidity with the overarching goal of empowering the trading desk to deliver more alpha," concluded Constantinos Antoniadis, Liquidnet's Global Head of Fixed Income.

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Survey Methodology

Liquidnet's FutureTech survey was developed to understand how MiFID II has and will continue to impact the role of technology on firms trading corporate bonds. The results from this survey are based on 35 detailed interviews conducted late 2017 as well as January and February 2018 with buy-side traders across Liquidnet's member network of asset management firms throughout Europe.

ABOUT LIQUIDNET

Liquidnet is the global institutional trading network where more than 890 of the world's top asset managers and other like-minded investors come to execute their large trades with maximum anonymity and minimum market impact. As the global leader in large block trading, Liquidnet provides access to unique trading opportunities in 45 markets across five continents. Liquidnet approaches every market with the same bold vision to provide a better, more efficient way to trade on a massive scale. It is this focus on size, combined with the strength of its network, disruptive technology, and commitment to transparency, that is revolutionizing the way equities and corporate bonds are traded. For more information, visit www.liquidnet.com and follow us on Twitter @Liquidnet.

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