

EUROPEAN FIXED INCOME BENCHMARKING REPORT 2015



“Undoubtedly the leading European forum for the buy side to get to grips with the key challenges resulting from the increasingly complex fixed income trading world”

Gianluca Minieri,
Global Head of Trading, Pioneer Investments

Executive Summary

Fixed income markets are in the process of radical industrial change, with regulation, innovation and new entrants completely shaking up the market structure. In an asset class where trades have traditionally occurred bilaterally, the buy side are now looking at new ways to trade electronically and the way buy side and sell side traders interact is changing as the search for liquidity goes on.

With fixed income markets evolving so rapidly, the Fixed Income Leaders Summit has compiled its own research on such issues, which can be found on the following pages. This study was designed to follow on from the 2014 report and to continue to offer an industry benchmark identifying the key challenges, spend priorities and trading strategies the buy side are undertaking to adapt to new fixed income markets.

The survey was completed by 50 senior buy side fixed income professionals made up primarily of Heads of Fixed Income Trading, CEOs and senior management from leading asset managers and hedge funds.

The survey concentrated on the following areas:

- The biggest challenges facing fixed income professionals in 2015
- Buy side predictions on the most negative impacts and positive impacts that regulation will have on their fixed income trading desk
- Technology spends for the next 12-18 months
- The adoption and on-boarding of new platforms by the buy side
- The priorities and skills the buy side look for when selecting their brokers
- The biggest priorities for buy side organisations in 2015
- Strategies the buy side are using to overcome liquidity issues

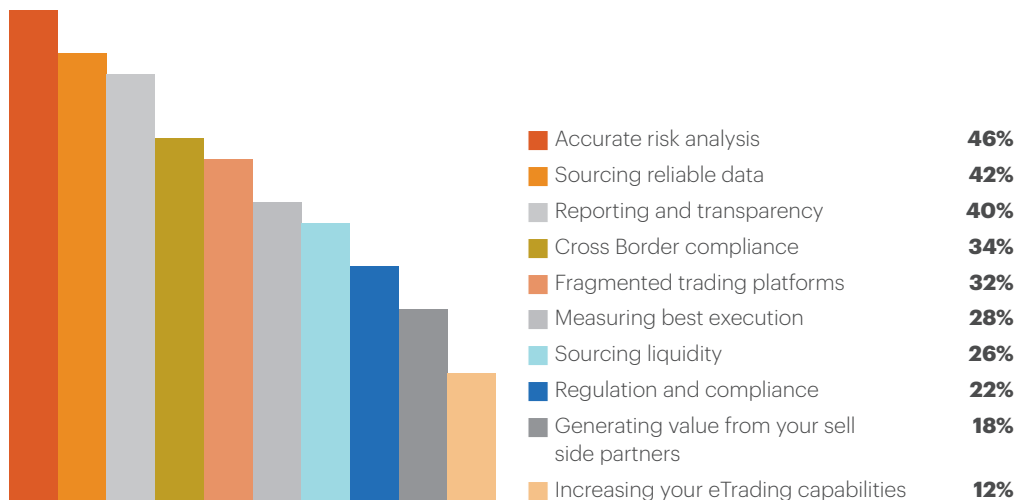
Topline Findings



Q1 What are the top three challenges your fixed income trading desk is facing in 2015?

Top Level Finding:

Accurate Risk Analysis' was the biggest challenge with **46%**, followed closely by 'Sourcing Reliable Data' at **42%** and 'Reporting and Transparency' at **40%**. Where as, 'Generating Value from your Sell Side Partners' and 'Increasing your eTrading Capabilities' were less common challenges.



2014 Comparison:

There has been a dramatic shift from 2014 to 2015. In 2014 the biggest challenge was cited as 'Sourcing Liquidity' with a huge majority of 73% whereas in 2015 this only ranked as a challenge with 26% of respondents. Whilst in 2014 'Accurate Risk Analysis' was only a key challenge for 35% and ranked bottom of the list out of the other challenges yet within a year it's now the biggest challenge for the buy side.

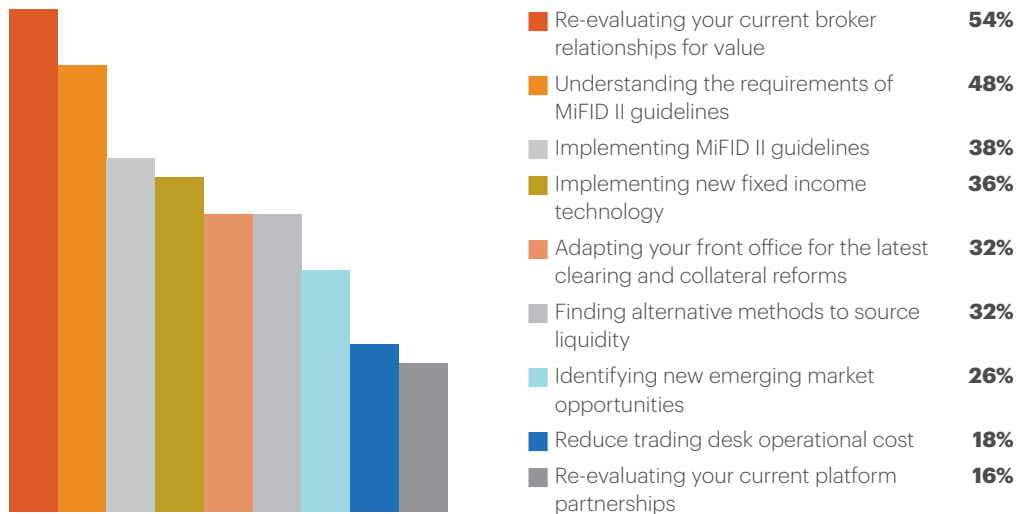
US Report Comparison:

The result in Europe is an exact match to the response in the US, with 46% of US respondents also citing 'Accurate Risk Analysis' as a key challenge. However, like in Europe in 2014, 'Sourcing Liquidity' still came out as the top challenge the US buy side face.

Q2 What are the three biggest priorities for your organisation in 2015?

Top Level Finding:

'Re-evaluating your Current Broker Relationships for Value' was the top priority with **54%**, followed closely by 'Understanding the Requirements of MiFID II Guidelines' at **48%** and then 'Implementing MiFID II Guidelines' at **38%**.



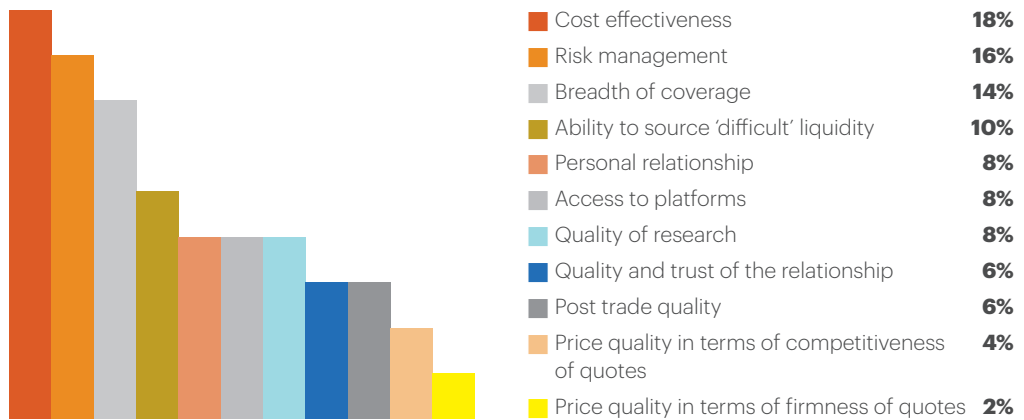
US Report Comparison:

The top priorities were similar with 'Re-evaluating your Current Broker Relationships for Value' being cited as the second biggest priority with 64%. In the US, 'Understanding and Implementing US Regulatory Guidelines' topped the list as the biggest priority (with 68%) which mirrors Europe this year were the two second biggest priorities were regulatory related.

Q3 What is the most important factor for you when selecting new brokers?

Top Level Finding:

18% of respondents chose 'Cost Effectiveness' as the most important criterion when choosing a broker, followed by 'Risk Management' at 16%.



"Not surprisingly, Focus is Cost Effectiveness, highlighting the ongoing constraints Buy Side actors are facing."

– Christophe Bourgeois, Head of Fixed Income Paris, BNP Dealing Services

2014 Comparison:

'Cost Effectiveness' is still the most important selection criterion year on year in Europe.

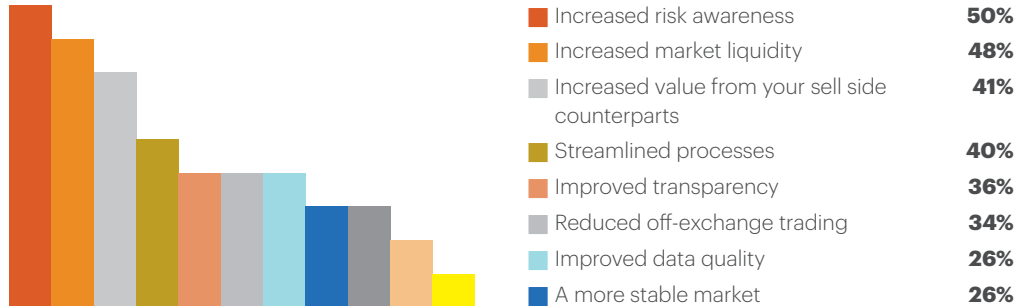
US Report Comparison:

'Breadth of Coverage' ranked as the most important selection criterion in the US.

Q4 In what 3 ways has the implementation of European regulation *positively* affected your fixed income trading operations?

Top Level Finding:

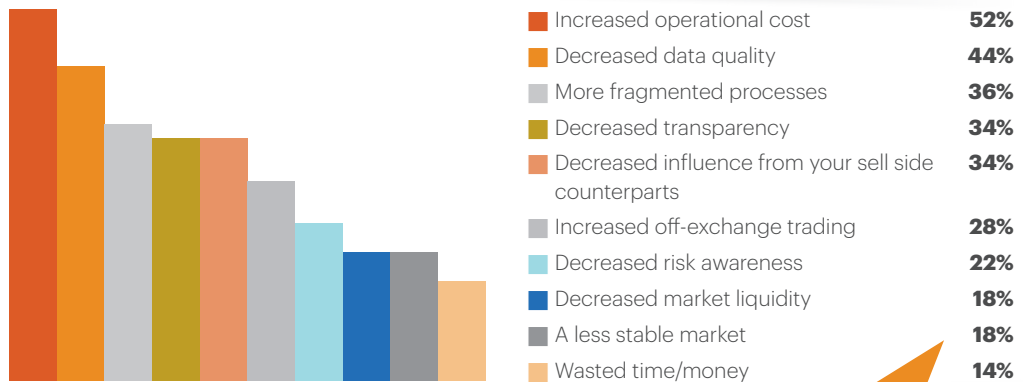
The top 3 most positive outcomes of European regulation were cited as 'Increased Risk Awareness', 'Increased Market Liquidity' and 'Increased Value from your Sell Side Counterparts'.



Q5 In what 3 ways has the implementation of European regulation *negatively* affected your fixed income trading operations?

Top Level Finding:

The top 3 most negative outcomes of European regulation were cited as 'Increased Operational Cost', 'Decreased Data Quality' and 'More Fragmented Processes'.



"Buy Side actors are fully aware that current regulation will have massive impact on liquidity and costs. In this environment, However, we have to bear in mind that Technology and New Platforms are not the only answer."

– Christophe Bourgeois, Head of Fixed Income Paris, BNP Dealing Services

Q6 What do you believe is the most *positive* impact MiFID II will have on your fixed income trading desk once the January 2017 deadline comes around?

Top Level Finding:

A slight majority of **28%** predict 'Improved Efficiency in Financial Markets' will be the most positive impact MiFID II will have on their fixed income trading desk



- Improved efficiency in financial markets **28%**
- Improved technological capabilities **26%**
- Increased competition in financial markets **22%**
- Increased trading costs **20%**
- Increased transparency **4%**

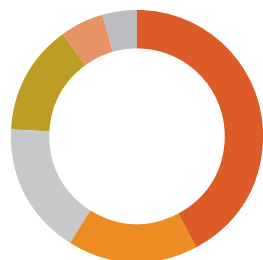
"MiFID II's transparency regime creates a tension for traders between improved price formation and reduced liquidity; execution of smaller trades will probably benefit while blocks will take a hit."

– Dan Barnes, Editor, The DESK

Q7 What do you believe is the most *negative* impact MiFID II will have on your fixed income trading desk once the January 2017 deadline comes around?

Top Level Finding:

Increased Trading Costs 'at **32%** is the most negative impact that buy side traders consider MiFID II will have on their fixed income trading desk, closely followed by 'Reduced Market Liquidity and Wider Spreads' at **30%**

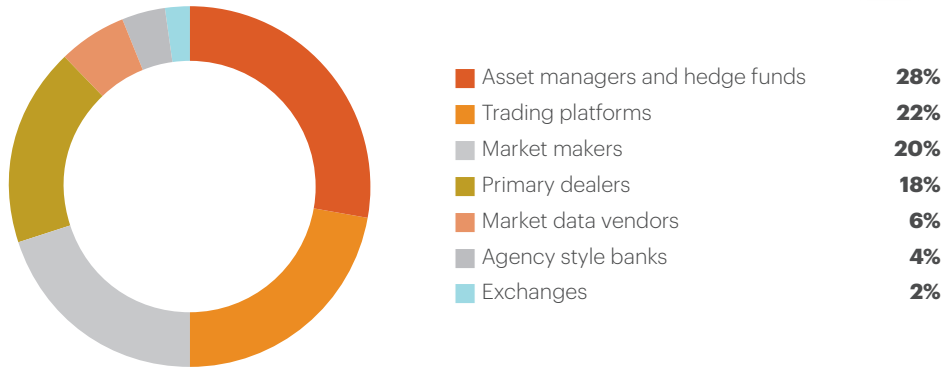


- Reduced market liquidity, wider spreads **30%**
- Decreased competition in financial markets **12%**
- Decreased transparency **12%**
- Decreased technological capabilities **10%**
- Decreased efficiency in financial markets **4%**
- Increased trading costs **3%**

Q8 On the back of regulatory reform and market structure developments, who do you believe have ended up with more control of liquidity in fixed income markets vs. pre 2008 financial crisis?

Top Level Finding:

28% of respondents believe that 'Asset Managers and Hedge Funds' are now the main liquidity holders in a changing fixed income market.



US Report Comparison:

This matches the feeling in the US, were most respondents also believe that 'Asset Managers and Hedge Funds' are the main liquidity holders although this ranked top with a greater majority of **46%**

"With the majority of respondents stating that the buy side are the main liquidity holders, this further emphasises the shift in market structure as liquidity moves away from the traditional sell side providers and into the hands of the buy side. As the buy side hold more inventory on their books, there is a need to find new means of trading which has given rise to a wave of new fixed income platforms over the last 12 months, and this has led to the boundaries between buy side, sell side and platforms becoming indistinct, and the way buy and sell side traders interact is changing as a result of this."

- Oliver Kirkbright, Content Editor, Fixed Income Leaders Summit

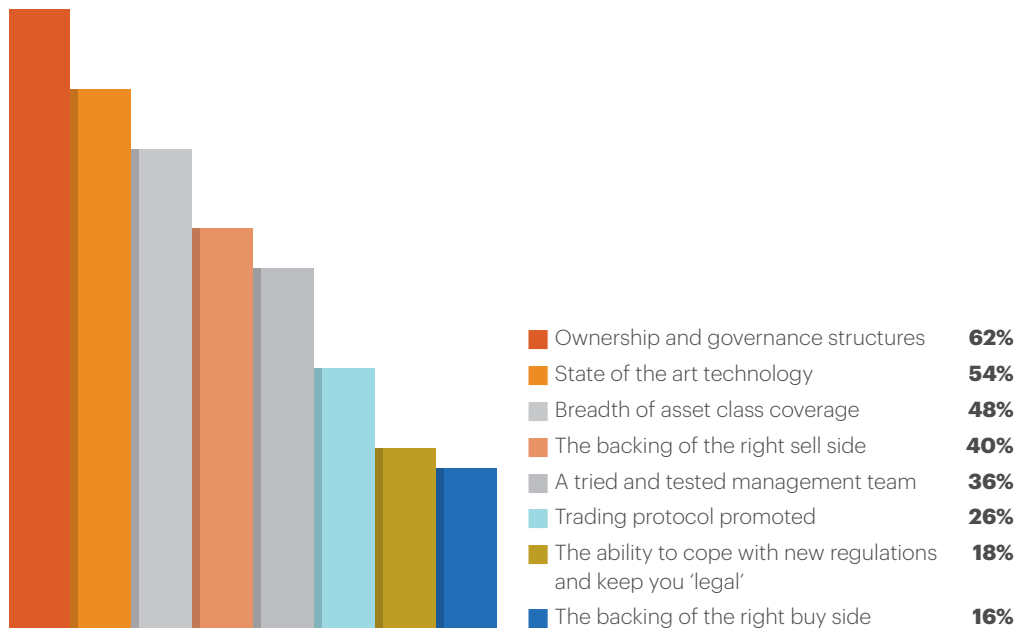
"Asset managers and Hedge Funds are aware that they are the main liquidity holders, and are keen to create the conditions to take part in the new game, together with banks."

- Christophe Bourgeois, Head of Fixed Income Paris, BNP Dealing Services

Q9 Which 3 characteristics do you value most highly when assessing the likely help any new fixed income market initiatives can bring to your business?

Top Level Finding:

The top 3 characteristics that buy side traders value most when assessing the potential help from new fixed income market initiatives are 'Ownership and Governance Structures' (**62%**), 'State of the Art Technology' (**54%**) and 'Breadth of Asset Class Coverage' (**48%**)



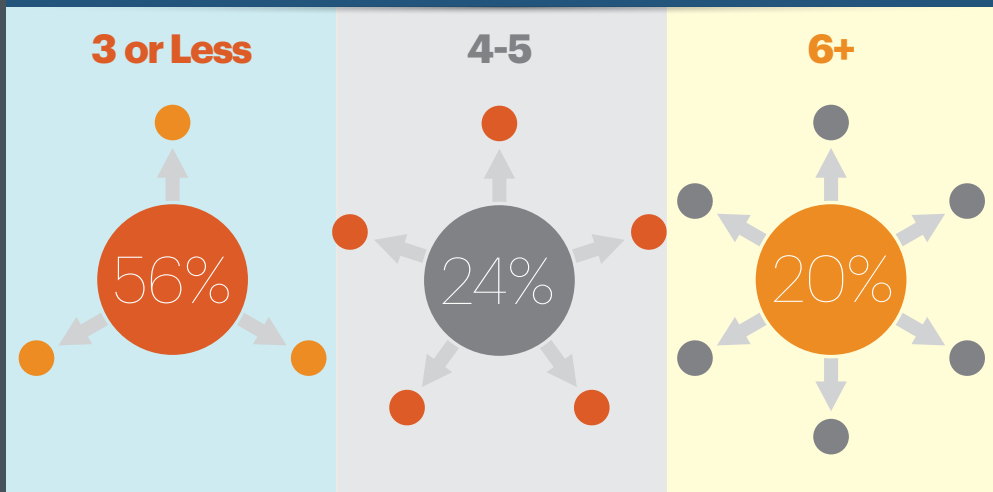
"With the wave of new platforms coming to the fore and increased fragmentation in fixed income markets, quite clearly the need for trust still remains when selecting new initiatives, with ownership and governance structures the most important characteristic. Also, with strive for more streamlined trading processes, alongside the ever in creasing need for belt tightening and reducing costs, it may come as no surprise to see state of the art technology as the second most valuable characteristic."

– Oliver Kirkbright, Content Editor, Fixed Income Leaders Summit

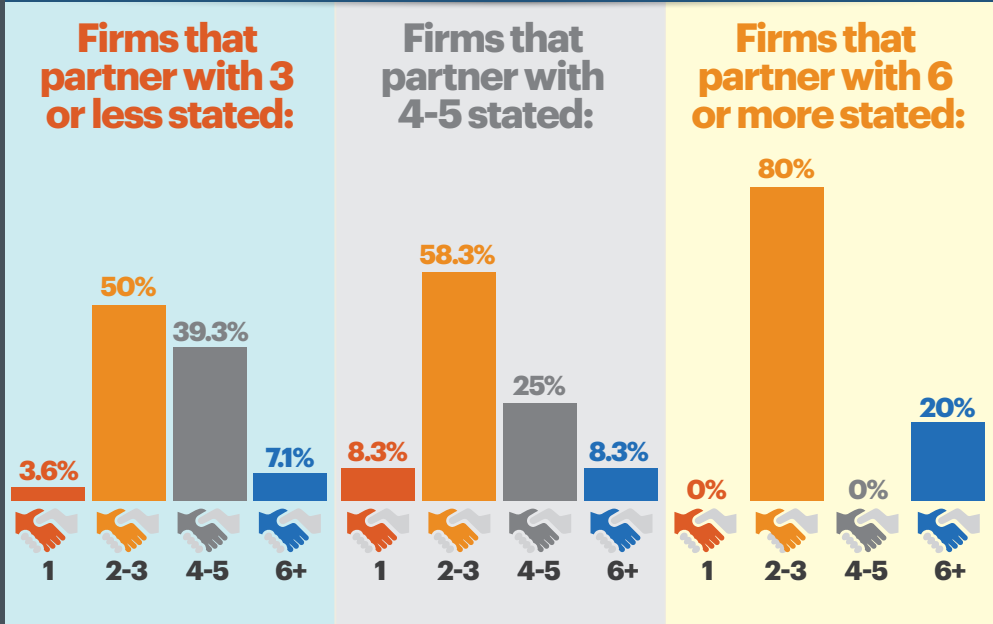
THE FIXED INCOME LIQUIDITY RACE

BUY SIDE REVEAL HOW THEY'RE KEEPING ABREAST OF THE RAPID GROWTH IN FIXED INCOME PLATFORMS

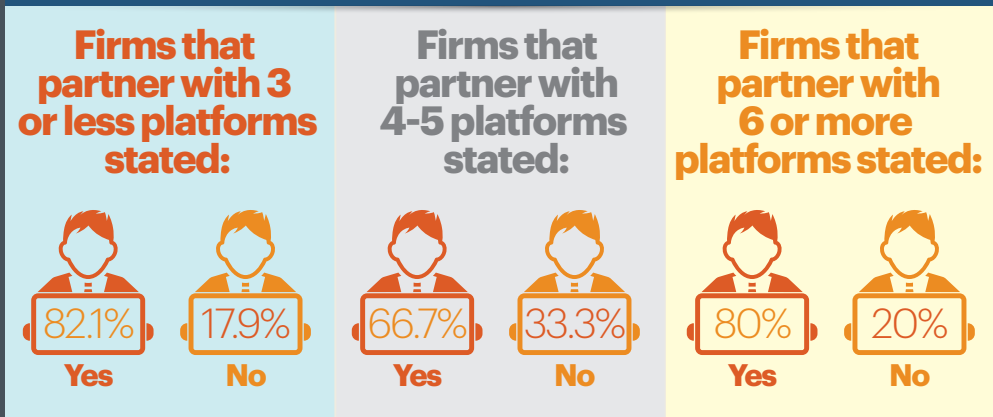
HOW MANY PLATFORMS ARE YOU CURRENTLY PARTNERED WITH?



HOW MANY DO YOU THINK YOU WILL BE PARTNERING WITH IN 5 YEARS?



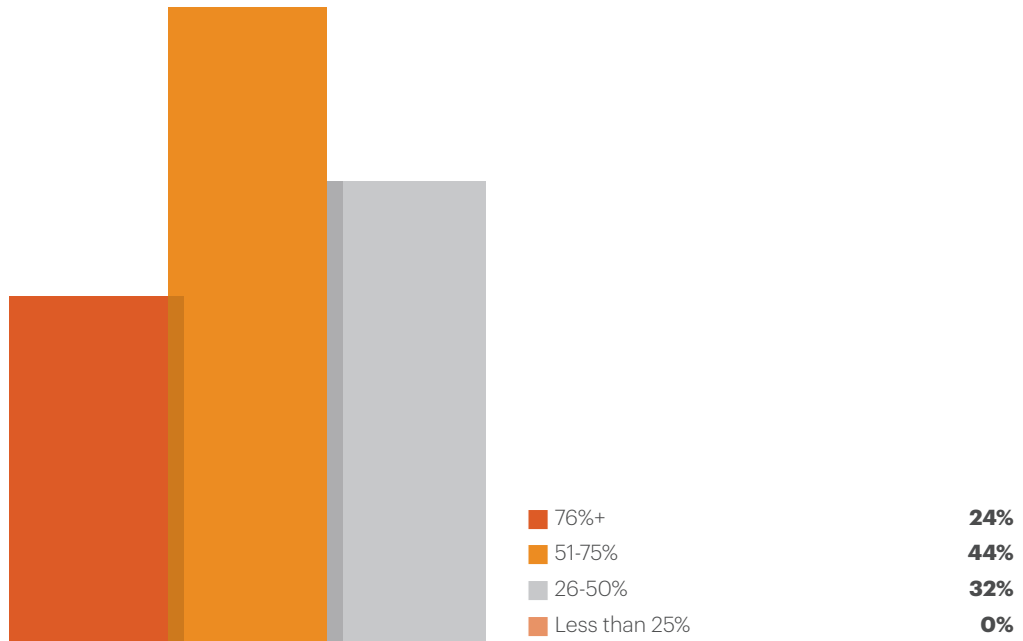
ARE YOU EVALUATING YOUR CURRENT PLATFORM PARTNERSHIPS



Q10 What percentage of your government bond trading takes place on electronic platforms over total trading?

Top Level Finding:

Nearly half of respondents (**44%**) revealed that 51-75% of their total government bond trading takes place on electronic platforms



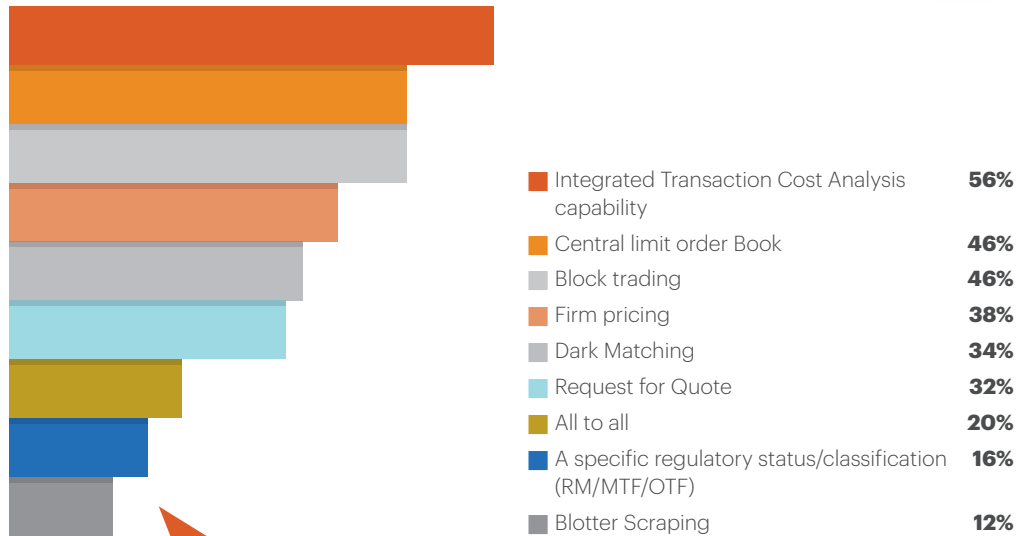
2014 Comparison:

There has been a sharp increase in the amount of government bond trading taking place on electronic platforms in Europe. Only 16% of European buy side traders cited that 51-75% of their government bond trading was taking place on electronic platforms.

Q11 If you could design the perfect trading system, what would be the top 3 functions?

Top Level Finding:

'Integrated TCA Capability' (56%), 'Central Limit Order Book' (46%) and 'Block Trading' (46%) are the 3 most desirable functions of the perfect trading system



"TCA analysis is now clearly the focus on Fixed Income dealing, after Equity and FX. Data constraints is a big concern in Fixed Income: the challenge is to Gather data as much as possible, as well as gathering data of great quality."

- Christophe Bourgeois, Head of Fixed Income Paris, BNP Dealing Services

"It is likely that no single platform will match the needs of all traders but a CLOB for smaller, liquid trades and a separate block trading platform are both needed in equity markets; given the liquidity and pricing challenges in fixed income at least two models are needed, with greater support around TCA."

- Dan Barnes, Editor, The DESK

US Report Comparison:

'Central Limit Order Book' was also considered an ideal functionality amongst US buy side traders closely followed by 'All to All' which was considered less ideal by European buy side traders for their ideal trading system

