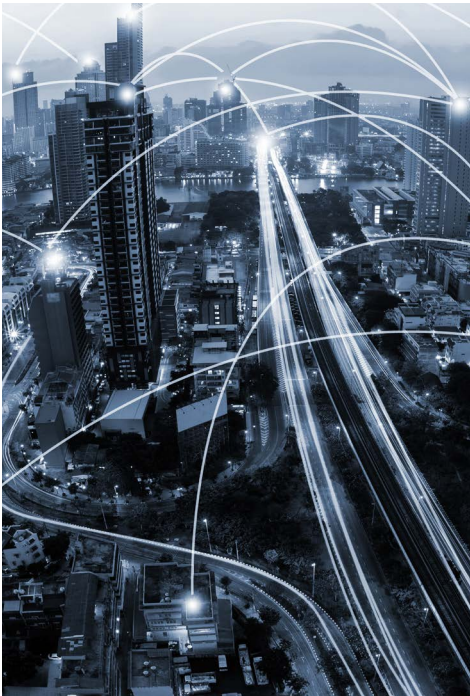


# The Transformative Power of Muni E-trading



## More liquidity, lower costs, and the need for audit trails are accelerating changes in muni bond trading

The bond market is adopting to electronic trading in a big way: 26% of corporate bond volume was traded electronically in the third quarter of 2018, an increase from 19% in the first quarter.

### Municipal Bond

The growth of electronic trading in the fixed income market has been analogous to technology enhancements and the rise of digital age that the world has been experiencing. Municipal Bond trading in the global secondary markets is not different than these growing technology trends. The growth of Separately Managed Accounts (SMAs), buy-side and sell-side Merger and Acquisitions, regulatory changes, and scaled-down inventory holdings have all been factors that drove municipal market participants to leverage an electronic trading marketplace to improve trading efficiencies, bring broader liquidity and lower costs.

MarketAxess, which provides an electronic trading platform for institutional credit markets as well as market data and post-trade services, hosted a recent webinar on e-trading in the municipal bond market. John Gallagher, head of Municipal Bonds and U.S. High-Grade Product Management, and Hardy Manges, head of Municipal Dealer Sales, discussed the evolution of muni bond e-trading and shared their insights into how market participants benefit from e-trading to execute taxable and tax-exempt trades.

### The Quest for Efficiency

Gallagher told attendees that potential e-trading participants typically want answers to the following questions: What is electronic trading? How does it work? Why is it advantageous? Why should we use it? The answer to all these questions have one theme in common: efficiency.

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## “Connectivity between all participants creates pricing and trading efficiency,”

–John Gallagher,  
Head of Municipal Bonds and  
U.S. High-Grade  
Product Management

Electronic trading drives greater efficiency by converting today’s complicated communications between multiple counter-parties into a simpler workflow, noted Gallagher. But since each participant on both the buy-side and the sell-side has slightly different workflows, it’s critical to work with a partner that can build a range of bespoke tools to tackle a variety of client needs and priorities, such as improving liquidity, expanding the distribution network, and turning over inventory faster.

In addition to a customizable toolkit, Gallagher noted that MarketAxess clients also value the cost savings the platform provides. “MarketAxess is in the business of not only improving the workflow but making sure that when you execute a trade, you are executing at the best possible price that you can find in the market,” said Gallagher.

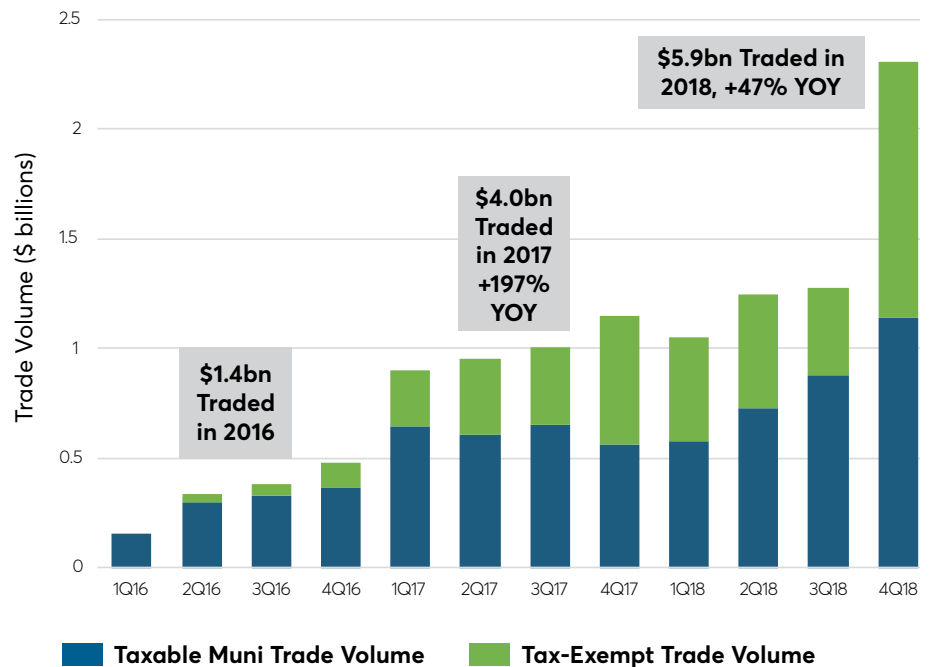
### Growing the Platform’s Network and Volume

MarketAxess continues to build out its municipal bond platform and expand its network, explained Manges. MarketAxess currently has more than 500 buy-side entities and over 130 dealers enabled to trade munis.

Building out the network also involves combining the taxable and nontaxable muni marketplace with credit traders who might trade both on the buy-side and the sell-side. “Connectivity between all participants creates pricing and trading efficiency,” Gallagher explained. “The network creates efficiency by integrating the back end on the client side into the client’s risk book or the book of another marketplace participant.”

## MarketAxess Municipal Trading Growth

MarketAxess Trade Volume



## Today, about 55% of munis are cleared in Open Trading.

Gallagher added that it's still early days for muni trading at MarketAxess. However, the platform's growth trajectory is impressive and in line with trading of emerging markets and high yield bonds, two of the company's most successful products. The MarketAxess platform has traded more than \$11 billion since it started in 2016 with \$5.9 billion trading in the fourth quarter of 2018 (see exhibit 1).

### Winning over the Skeptics

Market players can be cautious about trying something new but MarketAxess wins them over in short order, especially once they understand the global nature of the platform, said Gallagher. Since the muni market is not limited to the U.S. and Puerto Rico, foreign buyers have become a growing and important market component.

Another advantage of MarketAxess is that clients can use the platform for regulatory compliance. MarketAxess records any interaction during a bond trade, and anyone with the right permissioning can review audit trails and audit logs, including details such as prices, spreads, volumes, where trades occurred, and the fees associated with those trades.

Market participants are also keenly interested in MarketAxess' Open Trading™ feature. Open Trading deepens liquidity by allowing clients to transact with anyone. Today, about 55% of munis are cleared in Open Trading. To use Open Trading, a client sends out a 'bid wanted' in the market or on MarketAxess to their dealer. At the same time, the client can send the bid to counterparties the client doesn't have a relationship with, expanding the direct dealer liquidity pool by opening bids up to the rest of MarketAxess' client base.

### The Powerful Role of Data

Gallagher and Manges concluded the webinar by discussing another hot topic: the use of data and algorithms in muni bond e-trading. Manges said these algorithms are critical to developing pricing models to handle the vast number of bonds that are traded daily.

"An algorithmic model gives clients bids and pricing from available data, on platforms or the MSRB, is very important for the market," said Manges. He noted that the market has expanded from almost no algorithmic trading to more than 10 dealers with some algorithmic support—a number he expects to grow significantly throughout 2019.

To listen to the webinar and learn more about how electronic trading is transforming the muni bond market, [click here](#).