

Questions & answers

MTS Technology and Innovation

Fabrizio Cazzulini, CTO at MTS, shares his thoughts on technological innovation in the fixed income market, the impact of regulation and how MTS is meeting demand for efficient and transparent electronic trading.

Q1 During your time as CTO, where have the most significant technological changes taken place in the fixed income market and how has MTS adapted to this?

As a CTO, it's abundantly clear to me that technological change has effectively reshaped financial markets and fixed income is no exception. The transition to electronic trading has been at the forefront of this, driving trading volume onto regulated, transparent venues, but also widening participation for those who previously lacked the resources to access liquidity.

As a direct result, today's market ecology is a very different beast, with a diverse make-up of counterparties connected on a truly global scale. The on-going evolution of electronic trading has brought with it better functionality to manage risk and execute efficiently in the inter-dealer, dealer-to-client market and the all-to-all market.

Increasingly we are seeing low-latency connectivity and market data become a key feature of this trend and a by-product of technological change, helping participants hedge risk and facilitate their trading strategy of choice. It has enabled better pre-trade price discovery, cost-effective execution and the development of more sophisticated pricing models. But perhaps one of the most striking changes has been the increase in technological capabilities and in particular, capacity. This has effectively triggered a dramatic growth in the availability of credit instruments in recent times, and thereby enriched the diversity of tradable bonds available to the market.

As a pioneer of electronic trading with more than 25 years experience in the industry, we are perfectly positioned to not only adapt to these changes, but also to determine them. For instance, we've recently enhanced API trading on MTS BondsPro, formally MTS Bonds.com, in order to meet market demand for automated trading in the credit market.

This has been complemented with a real focus on flexibility in execution across our broader Credit offering, as customers can select from a broad range of protocols to match their specific trading strategies. Clients can execute using RFQ or order book functionality, or simply choose to execute via a specific liquidity provider, to trade instruments that suit their trading needs across US or European markets.

We continually invest in both the technology underpinning our platforms and the trading functionality within them, ensuring MTS has the infrastructure and technology to meet market demand.

Q2 Regulation continues to define the electronic fixed income market. What technological enhancements have you made to comply with both existing and impending regulation such as MIFID II?

There is no question that regulation and its implementation has already reshaped financial markets since 2008, and as a direct result, continues to influence technological innovation today. Regulation has led to greater transparency and risk management, and played a significant role in developing new platform upgrades.

Working closely with our parent company and majority owners, London Stock Exchange Group, and various international regulatory bodies, we have played an important role in the implementation of new rules, educating market participants and streamlining the compliance process. This is a key differentiating factor at MTS, as we hold the practical experience, resources and know-how to help customers adopt best practice.

We expect the forthcoming introduction of MIFID II in 2017 to trigger further changes to how counterparties interact across bond markets. Whilst we are very much still in a consultancy stage, market data – and more specifically pre-trade data – has fallen under the spotlight of late as regulators seek to standardise transparency and risk management protocols for all market practitioners.

Q3 What technology and product upgrades are in the pipeline in the near future?

We have a number of product upgrades that are either in the process of implementation, or scheduled for future deployment. For instance, major technological upgrades are currently taking place on MTS Cash, the inter-dealer marketplace for European Government bonds to enhance trading functionality.

Likewise, MTS BondVision will see the further enhancement of FIX integration on the platform, enabling more efficient execution. We previously introduced the technology on MTS Swaps to address market demand and this will provide a blueprint for its introduction across other fixed income markets in the near future.

The recent introduction of MTS B2SCAN, a pre-trade tool that enables buy-side participants to efficiently locate and execute bonds via MTS BondVision, is another of our exciting and forward thinking initiatives. We are working with B2SCAN to look at the prospect of closer integration on the platform to further streamline the price discovery and execution process.

On the US side, we are also working on enhancing our trading venue for corporate and emerging market debt, MTS BondsPro, with plans to launch a pure web-based trading solution, based on HTML 5 in the second quarter of 2015.

This will dramatically reduce the onboarding process for prospective customers as it negates the need for cumbersome and time-consuming installation software. The market is already starting to move in this direction and we believe improving the user experience will only further encourage participation on the platform. This latest upgrade follows a number of enhancements on the platform following direct consultation with customers and prospects alike and, as a result, is gaining real traction in the market.

In a broader sense, we are committed to improving market access for participants, not just in terms of the on-boarding process but also in facilitating access to multiple markets and instruments.



Q4 Can you tell us a little more about the coverage, distribution and historical depth of your market data offering?

Our market data forms the cornerstone for MTS' full suite of offerings and is sourced directly from MIFID compliant trading venues. Comprehensive data has become a crucial ingredient for many institutions to feed pricing models, facilitate discovery and ensure compliance. With this in mind, we have worked continuously to expand coverage, distribution and depth in equal measure, to provide our customers with real depth and accuracy in price discovery.

We distribute executable rather than indicative prices on over 1,100 government bonds across 18 countries, using order-book execution with five levels of depth. This is a real testament to the coverage of instruments and markets alike offered by MTS.

With an established track record in electronic fixed income trading, we also hold over a decade of historical data sourced from the MTS Cash market, a significant and unique resource that enables banks and funds to effectively analyse market activity, back-test strategies and choose the optimum trading strategy.

Q5 How does MTS Data support market participants with their trading and compliance activities?

Our data offering is sourced directly from regulated trading venues. This is particularly important for our customers because it facilitates best practice for price discovery, verification and validation. Additionally, we offer a range of post-trade processing, reporting, portfolio and risk management tools, combined with robust technology. We also provide post-trade analytical services that enable customers to measure the benefits generated from electronic trading and support their compliance requirements.

As an organisation, we continue to work closely with regulatory bodies worldwide to ensure compliance with both existing and pending rules, particularly MIFID and the upcoming MIFID II requirements. Educating our customers and guiding them through this process remains a key focus for us.

Q6 How are you meeting demand for ultra-low latency market data?

We have already seen how unprecedented levels of volatility and uncertainty in fixed income markets across Europe have placed renewed focus on timely market data.

Low-latency market data has become a critical component of today's markets and this is something we have responded to with MTS Live, launched in 2012. Delivered via FIX, it provides unrivalled coverage of the European Government bond market with access to up to 30,000,000 quotes and orders.

The option of co-location has also become essential and from a technical standpoint. We have enabled co-location from within the same data centre as the MTS' matching engine to deliver reduced latency variance and ensure optimum delivery.



Additionally, we will soon be including ultra low-latency coverage of our local currency Government bond markets to further enrich our inter dealer data offering. Also in the pipeline is the introduction of post-trade data on MTS Live, which we plan to launch in the last quarter of the year. This is designed to streamline the compliance process across the breadth of the trading lifecycle and equip major institutions with the necessary tools to meet new rules.

Q7 What technology trends do you think will shape the industry in the coming years?

There are a number of distinctive trends already shaping the industry and which are likely to continue in the coming years. For instance, in the wholesale market, we are seeing greater focus on decreased latency, but particularly on minimising variance to ensure optimised and consistent message delivery. This is something that is certainly set to continue and will be driven forward by technological innovation and investment.

In the dealer to client space, the focus has really been on widening access, reducing barriers to entry and improving the user experience for market participants, both technologically and otherwise. The launch of a pure web-based trading solution on MTS BondsPro is just one example of how we are seeking to enact change and meet market demand. Another, has been enabling US participants to trade European fixed income products, via MTS BondVision US. Expansion in the region continues to represent a major focus for us through our FINRA registered broker dealer, MTS Markets International. The inclusion of US participants on both ATS platforms was designed to not only broaden access, but also enhance liquidity.

About MTS Group

MTS Group facilitates a number of regulated electronic fixed income markets across Europe and the US that are managed centrally to ensure optimum levels of global harmonisation and consistency. Over 500 unique counterparties trade an average volume of €100 billion each day on these platforms.

The individual companies within the MTS Group are regulated by financial services regulators in a number of European jurisdictions, including Financial Conduct Authority (FCA), Italian Ministry of Finance, Banca d'Italia, Consob, Autorité des Marchés Financiers (AMF), and in the United States by FINRA and SEC.

MTS Cash is a comprehensive and professional cash securities trading environment for the interdealer marketplace. MTS cash includes several domestic markets regulated in different jurisdictions enabling primary dealers to access unparalleled liquidity, transparency and coverage.

MTS Repo provides an order-driven market for the electronic transaction of repo agreements and buy/sellbacks in Italy. Agency Cash Management (ACM) is a UK-regulated electronic auction platform that uses the MTS Repo technology to enable cash-rich investors to enter into secured money market investments via the tri-party repo mechanism.

MTS BondVision is a trusted and efficient multi-dealer-to-client electronic bond trading platform, delivering exceptional access for institutional investors direct to market makers. MTS BondVision is accessible in Europe from the Italian and the UK legal entities and in US through the US legal entity of MTS Group. On the BondVision platform, MTS Group provides institutional investors with real-time pricing and the ability to trade with the major dealers.

MTS Credit provides a variety of electronic execution methods for a wide range of multi-currency non-government bonds, including covered, SSA, corporate and financial bonds. MTS Credit is composed of financial instruments available to trade on both BondVision and MTS Prime.

MTS Swaps leverages existing MTS Group distribution technology to deliver immediate access to a diverse range of liquidity providers through your chosen prime banks.

MTS Data is sourced directly and exclusively from the MTS interdealer market and includes benchmark real-time data, reference data, reference prices and historical data, providing the benchmark data source on the fixed income market.

FTSE **MTS Indices** are operated by FTSE TMX Global Debt Capital Markets, in which MTS has a minority stake. They provide independent, transparent, real-time and tradable Eurozone fixed income indices, based on tradable prices from MTS. FTSE MTS indices are tracked by (and can be traded via) around 40 ETFs in addition to numerous structured products.

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