



by **Jane
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Common Domain Model: a bond market perspective

Electronic trading of fixed income has grown rapidly in recent years, and we see this trend continuing globally, as developed markets mature and emerging markets electrify. As a result, ever more data related trade events and processes are becoming available. This points to a compelling case for standardising bond market data representation to reconcile trades, to tackle data quality issues related to market transparency, and to foster greater automation through the use of blockchain and artificial intelligence/machine learning. The Common Domain Model (CDM) proposes to lay the foundation for this, and ICMA, in collaboration with ISDA and ISLA, and in partnership with REGnosys, have completed the first phase in its initiative to extend the CDM to repo and bonds.

CDM provides the single common digital representation of trade events and actions across the lifecycle of repo and bonds, securities lending, and derivatives. It is now being considered for wider adoption by the corporate bond market in light of the many perceived benefits of improving internal efficiencies within firms, particularly around processes such as settlement, risk management, and regulatory reporting. It should also make it easier to build out a central hub of data which can be accessed by different areas of an institution, ensuring the consistency of data used across the firm. CDM also has the potential to drive greater interoperability between different trading venues, order/execution management systems, and CCPs. AxeTrading is a firm believer in interoperability and, as the adoption of electronic trading grows, we believe that the need and demand for this will become greater. Given the continued growth of new technologies,

such as distributed ledgers and cloud services, having consistent common datasets will be an essential building block.

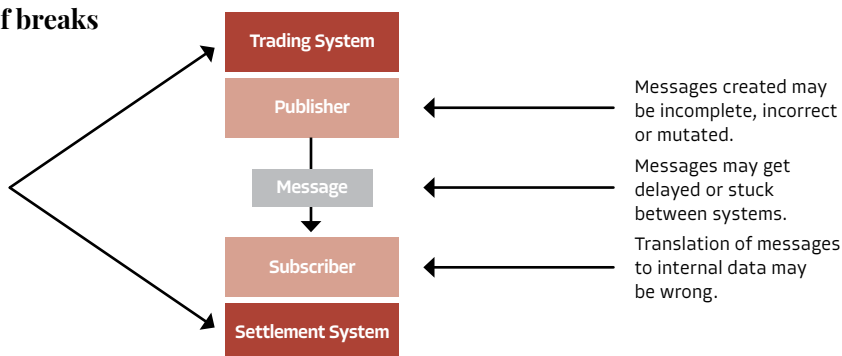
That said, there still seems to be a reluctance to change. As we know, corporate bond markets have until recently lagged behind when it comes to electrification of trading. A lack of market liquidity could be one reason for this. However, recent reports indicate that this could be changing, with increased volumes being traded electronically, and potentially we may be on the cusp of a new revolution and a shake-up of the corporate bond market.¹

Data is key, and the ability to enshrine consistent data representation for securities across a firm, or to share between organisations, is a potential game changer. As more and more data are produced, becoming essential to trading, and as analytics evolve to enable better transparency and trading decisions, it is vital that there are better efficiencies within a firm's processes in order to ensure that the same data are being used consistently and effectively throughout these workflows. Furthermore, as technologies such as machine learning and artificial intelligence continue to develop and are utilised in financial markets, standardised data within the corporate bond market becomes even more important. Having openness, flexibility, and inter-operability between systems is the route to cleaner and more transparent workflows, with key information that can easily be used and shared internally, as well as externally, both with counterparties and vendors.

1. Financial Times: [“The Big Read Corporate bonds: The next quant revolution: shaking up the corporate bond market”](#) by Robin Wigglesworth and Laurence Fletcher, 7 December 2021.

Exhibit 1: Source of breaks

- Systems separately enrich trades with data such as security and counterparty data.
- Two systems will use different data models for trades.
- Settlement system may recalculate values already calculated in trading system.



Source: 'Front-to-Back: Designing and Changing Trade Processing Infrastructure' by Martin Walker, published by Risk Books

The above diagram² illustrates a few of the many different parts of the workflow where using a CDM could help to reduce inconsistent data and help make electronic trading, clearing, settlement, amongst other areas, more efficient while reducing costs for the end-user.

We know that in some quarters there is a strong appetite for a consolidated tape for bonds. Here, the current lack of standards and gaps in the data is giving technology vendors pause for thought. While users and trading venues continue to report using mismatched formats, differing data conventions, and even trade fields completed in differing sequences, it will remain a significant challenge for anyone looking to offer a consolidated tape solution³. Perhaps another good reason to look at the CDM.

As more banks and financial institutions look to use blockchain in their processes, a CDM will help to accelerate this technology by standardising the data model and processes that create actionable events and transactions⁴.

If we look back to the 1990s, when FIX was first introduced to the fixed income markets to support

electronic communication, we can see an example of similar significant change. Initially there was pushback, but over time the market became more accepting and began to realise the commercial benefits of having a common communications standard. Today, the FIX Protocol is widely accepted as the standard for electronic transaction communication by both buy and sell-side firms, trading platforms, and regulators. It uses open standards, with no priority rights belonging to a single entity as to how the FIX protocol is structured, composed, and applied⁵. This has the potential to lead to issues downstream, and as electronic trading becomes more commonplace, this will mean more work for firms' IT teams to ensure that the right data is being captured correctly.

When there is a significant opportunity to reduce errors and reconciliation breaks, allow greater transparency around data, and foster automation, change, in this case the adoption of the CDM, should be embraced.

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2. "Front-to-Back: Designing and changing Trade Processing Infrastructure" by Martin Walker, published by Risk Books, 24 October 2018.

3. [Waters Technology](#): "Patchy data thwarts consolidated tape hopefuls in Europe" by Josephine Gallagher, 17 November 2021.

4. [Finadium](#): "Common Domain Models: Going Beyond Taxonomies" by Thomas Healey, 19 October 2021.

5. FIX Trading Community: What is FIX? Financial Information eXchange (FIX) Protocol.