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 electronify. 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 electronification 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.

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.

