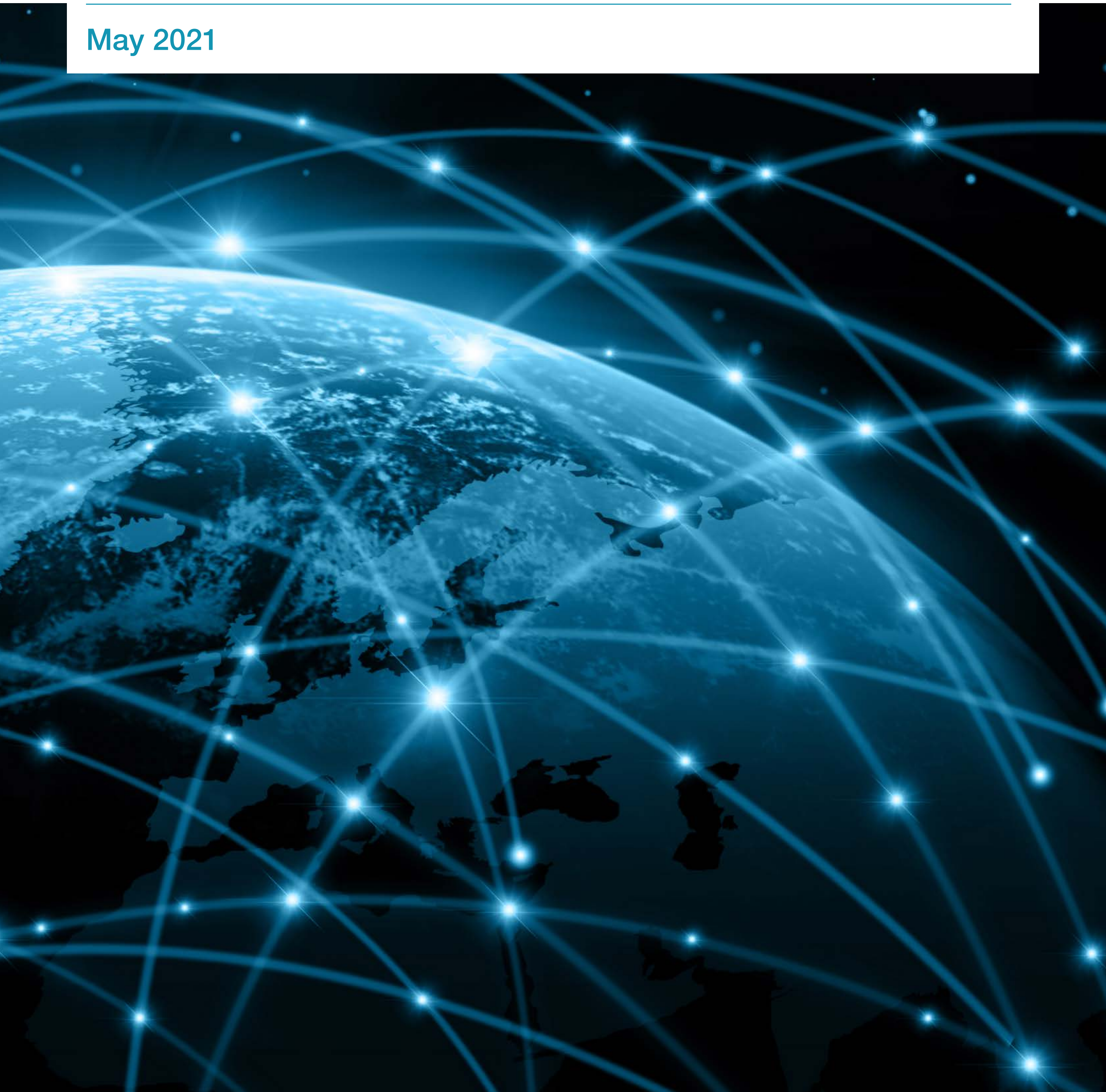
ICMA
International Capital Market Association

Industry guide to definitions and best practice for bond pricing distribution

May 2021



About the International Capital Market Association (ICMA)
ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels and Hong Kong, serving around 600 member firms in 60 countries. Among its members are private and official sector issuers, banks, broker-dealers, asset managers, pension funds, insurance companies, market infrastructure providers, central banks and law firms. It provides industry-driven standards and recommendations, prioritising four core fixed income market areas: primary, secondary, repo and collateral and sustainable finance. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets. www.icmagroup.org

Electronic Trading Council (ETC)
ICMA's ETC comprises buy-side heads of trading desks, sell-side senior traders or heads of market structure and/or electronic trading and senior representatives from trading venues and technology providers to look at the evolving fixed income electronic trading landscape, in order to better understand the direction of travel for European cross-border fixed income electronic trading, and plan accordingly. Please contact Elizabeth.Callaghan@icmagroup.org for more information or to participate.

This guide has been written by Elizabeth Callaghan, ICMA, and reflects substantial input from the members of the Axe Distribution Working Group of ICMA's Electronic Trading Council

Introduction

The term 'axe' originating from the phrase 'axe to grind' is used in fixed income trading to represent a sell-side advertising buy or sell bond interests. These are traditionally tied in some form to the sell-side's book but can also be driven by client orders and even a trader's market view or valuation. In equity markets the self-explanatory term "Indication of Interest" (IOI) is used.

For many years in fixed income, and particularly in the sphere of electronic trading, there has been keen interest in how these axes are distributed because they are a vital source of data for bond traders. Counterparties use axes to source liquidity, as well as to negotiate improvements in quotes received, potentially bringing the traded price inside the bid-ask spread.

Even though axes [pre-trade bond pricing information] are important for traders, the way in which they are distributed is not uniform and may even in some cases have been unintentionally misleading, causing consternation amongst buy-side market participants. This new guide to best practice for bond pricing distribution aims to set out standards and definitions agreed on by a representative group of industry participants, which we hope will be adopted by the market as the basis of further innovation and automation.

Background

Today, axes are communicated from the sell-side to buy-side through trading venues/vendors and axe networks. Several distribution methods allow for targeting of axes and they can also connect to the buy-side trade lifecycle (portfolio management and post-trade activity) through Order Management System (OMS) and Execution Management System (EMS software). While the distribution methods can vary, the communication is considered bilateral ie between two parties. The 'owner' of an axe is the sell-side which is advertising the buy or sell bond interest to potential individual counterparties, who do not interact with each other.

The difference between runs and axes is sometimes confusing. Runs are considered a basic indication of where a market might be in relation to a bond or bonds and axes are a stronger indication but the line between the two is often blurred. Clear guidance and definition of the differences between runs and axes are needed in order to not mislead potential counterparties or create false markets (see industry accepted definitions below).

Rather than 'axe distribution' this guide refers to 'bond pricing distribution' which better describes a sell-side's advertisement of buying or selling interests and is intended to avoid further confusion. We hope that 'bond pricing distribution' will be the overarching term used to describe standardised categories for the advertising of bond buying/selling interests in future.

Benefits of a standardised approach

With accepted industry guidance in relation to bond pricing distribution, the sell-side can advance their product offerings in the market. The same holds true for trading venues and technology providers. Robust bond pricing distribution standards should reduce the cases of stale axes (old or out of date prices are widely experienced today) and promote real-time electronic bond pricing distribution. Surprisingly, there is still manual spreadsheet updating of runs and axes. Solid bond pricing distribution practices would enable the buy-side to have the confidence to take advantage of auto-pricing tools and trends in electronic trading.

The buy-side has also found that OMS have improved enough in recent years to handle executable and targeted axes. Therefore, buy-side firms have been strongly in favour of a standardised axe/run structure being put in place to organise the market in order to increase usage of executable, streaming and targeted pricing.

With set bond pricing distribution standards, internal scrutiny in buy-sides will be easier to manage. Traders will be able to provide snapshot evidence as to where and when they dealt, compared with the market at time of a trade. They will not be in the position of having to 'justify' decisions internally in audit/best execution meetings, which occur today. From a buy-side perspective, consistent uniform standards for bond pricing distribution will lead to more trust.

ICMA Axe Standard Working Group

To create consistent business practice for bond pricing distribution, ICMA created the axe standard working group (ASWG), a subgroup of ICMA's Electronic Trading Council [ETC]. This working group consisted of buy-side heads of trading desks, sell-side senior traders or heads of market structure and senior representatives from trading venues and technology providers. Through robust discussion and investigation into acceptable and less acceptable bond pricing distribution practices, the ASWG agreed (and approved by the ETC) definitions, a guide to best practice and in some cases, new terminology, to better and more accurately describe the categories of advertisement of bond buying or selling interests.

The following represents terminology, definitions, and guide to best practice for bond pricing distribution as agreed by the industry.

Summary of standardised bond pricing distribution terminology

Cash bonds – corporates & sovereigns

	Run	Market-run	Axe	Streaming	Executable
Direction	Bid or offer/ Optional to publish/ Indicative (but should not change)	Bid and offer	Bid or offer	Bid or offer	Bid or offer
Price/Quote	Optional to publish/ Indicative state	Optional to publish/ Indicative state (but should show price)	Optional to publish/ Indicative state	Mandatory to publish/Indicative state	Mandatory to publish/Firm state
Size	Optional to publish/ Indicative state	Optional to publish/ Asymmetric or Identical/Indicative state	Mandatory to publish/Indicative state (but ideally firm)	Mandatory to publish/Firm state	Mandatory to publish/Firm state
Trade interest	Non-committal	Non-committal	Committed	Committed	Committed
Good until	N/A	N/A	Cancelled	Cancelled	Cancelled

Industry agreed definitions for bond pricing distribution

Runs – are considered a basic indication of where a market might be in relation to a bond or bonds. They are often sector based.

Runs are considered indicative. No size or direction is mandated with a run. There is also no relationship to a position, they are often electronic but more of a scatter gun approach. In addition, they are often distributed through more manual methods such as emails and electronic chat messaging. The updates are infrequent.

Market Run – a correct reflection of a 'working market indication'. Direction is shown as bid and offer and the updates are infrequent. There is no clear relationship to a position.

Axes – are by far the most prominent pre-trade bond indication of interest. Often targeted to clients based on specific needs. Importantly, they are indicative but are considered much firmer than runs. Direction is shown as bid or offer and there is a relationship to a position. Axes are updated frequently, demonstrating the sell-side is truly keen to buy or sell.

Streaming prices/quotes – are considered indicative. They are most often targeted specifically based on counterparty need. The distribution can be through vendors, networks, or a direct buy-side/sell-side connectivity channel API. The direction is bid or offer, and the updates are distributed electronically, and the frequency update is real-time.

Executable prices/quotes – are considered firm. Like streaming quotes, they are specifically targeted based on counterparty need. The distribution can be through vendors, networks, or a direct buy-side/sell-side connectivity channel API. The direction is bid or offer, and the updates are distributed electronically, and the frequency is real-time. **Any firm executable price/quote may be subject to MiFID II obligations per AIOIs (Actionable Indications of Interest) as stated in MiFID II/R.**

Guide to best practice for bond pricing distribution

Direction

Direction is shown as either one-sided or two-sided. One-sided direction indicates bid or offer. Whereas two-sided direction, indicates bid and offer. Only a market-run has a two-sided direction of bid and offer. Axes, streaming and executable prices/quotes are all one-sided (bid or offer). However, in the case of a run, it is optional to publish direction.

Price/Quote

Price/quote is considered either indicative or firm. Runs, axes and streamed prices/quotes are considered indicative. The latter is not able to be firm because of 'last look'. However, executable prices/quotes are considered 'firm'. **Please note, any firm price/quote that is considered executable may be subject to MiFID II obligations per AIOIs (Actionable Indications of Interest) obligations as stated in MiFID II/R.**

For a market-run, the recommended business practice is to publish a price/quote and ideally that price/quote is firm. However, it is understood that for some asset classes this may not always be possible. Therefore, for certain illiquid asset classes it is fine to indicate the prices/quotes for market-runs as optional to publish (non-mandatory) and the price/quote can be considered an indicative state rather than firm.

If a price/quote is published, it does not mean it has to be published in other categories. For example, if a price/quote is published in streaming category, it does not mean it has to be published in the axe category. This is because sometimes these categories may be targeted, and different information may appear for the same ISIN.

Size

For runs, publishing size is optional. However, it is considered mandatory to publish size for market-runs, streaming and executable categories. Note, for market-runs, the size can be shown as either asymmetric (e.g., bid is 2mn and offer is 5mn) or identical. Size in the run and market-run categories are considered indicative, while in the streaming and executable categories those are considered 'firm'. If a firm size accompanies a firm price, as in the executable category, then as previously noted, **any firm executable price/quote may be subject to MiFID II obligations per AIOIs (Actionable Indications of Interest) as stated in MiFID II/R.**

As mentioned, for market-run the size is often shown as an asymmetric bid/offer. It can be common practice for firms to subsequently lift the offer and list in the axe category as a separate 'offer' axe. For example: While the provision of both bid and offer is captured under "market-run", in the event of asymmetric sizes attached to them (1 million on the bid / 5 million on the offer), particularly in corporate bonds, some market participants can choose to classify this being axed to sell the respective bond (rather than buying it). In such cases, flexibility is provided by either showing a binary sell axe, 5 million on the offer or a net 4 million on the offer.

Trade interest

For runs and market-runs there is not a guaranteed interest to trade from the dealer. However, for axes, streaming prices/quotes and executable prices/quotes, there is a committed* interest from dealers 'to do the trade'. Runs and market-runs are not considered to be tied to a dealer's position. However, an axe, streaming price/quote and executable price/quote are all tied to the dealer's position. The dealer is indicating his/her commitment.

*Committed trade interest should not be confused with a 'committed quote' as in Fundamental Review of the Trading Book (FRTB).

Good until

Good until cancelled for axe, streaming or executable categories. Dealers should clear 'timed-out' prices/quotes and then refresh if applicable.

Update frequency:

Update 'frequency' can be different for different instruments and different distribution channels. 'Realtime' is considered each time there is an update in price or size or direction. 'Frequent' is considered when price, size or direction are routinely updated using a pattern of behaviour. 'Infrequent' suggests there is no routine update in price or size or direction and is often reliant on manual input.

To sum up, 'real-time' is fully automated, 'frequent' is semi-automated and 'infrequent' is manual input. Runs and market-runs are updated infrequently. Axes are updated frequently. Any pricing or quotes that are streamed or considered executable are updated in real-time.

Note: The guide to best practice will be updated throughout 2021 and thereafter, reviewed semi-annually.

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
8002 Zurich

ICMA London
T: +44 20 7213 0310
110 Cannon Street
London EC4N 6EU

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

ICMA Brussels
T: +32 2 801 13 88
Avenue des Arts 56
1000 Brussels

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2, Lippo Centre
89 Queensway, Admiralty, Hong Kong

ICMA
International
Capital
Market
Association

icmagroup.org