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# A 'cut & paste' equity CT solution for FI markets may be no solution at all

The MiFID II objective of increasing transparency remains a key measure when considering the success of the legislation. However, a lot of soul searching continues as to why the outcome has not yet lived up to everybody's expectations.

One area of disappointment is the absence of a Consolidated Tape (CT) for either equities or fixed income (FI). Yet, as with the formation of MiFID II itself, many of the questions being asked about their absence seem to be equities orientated, with FI markets appearing to be a second order concern. This is worrying because if we don't learn from past errors, we are destined to repeat them. To avoid this, greater effort must be made to understand how FI markets function so the appropriate value of a FI CT can be determined.

FI transactions are made up of three distinct steps, with equal weighting to the objective, those being i) identification of liquidity, ii) price formation, and iii) execution. Steps i) and ii) are the 'art' of FI trading and, in practical terms, are not largely relevant for equity transactions due to the omnipresence of that information correlated to the commoditised nature of that market and the use of execution protocols suited to highly liquid instruments, e.g. Central Limit Order Books.

Unless FI markets are going to shortly become commoditised in the same fashion as equities (and considering that some market practitioners have been predicting this for several decades but it has yet to come to pass), then an FI transaction will remain a three part process where the identification of liquidity and price formation remain intrinsic to it. Since the inception of FI e-trading, the Request For Quote (RFQ) protocol has been and remains dominant as it accounts for the need of liquidity identification and price formation alongside the final step of execution.

While a CT will not directly change the RFQ experience itself, it may be able to play an additive role in the first two steps of an FI trade by bringing more science to the 'art' of liquidity identification and price formation.

A prerequisite for this is data - but which kind? In essence, the most productive type is going to be post-trade, i.e. trade prints, against which market participants can unleash their data scientists, quants, et al - to optimise the three step FI execution process. That leaves us to consider the role of pre-trade data, another emotive issue under MiFID II. While there continues to be healthy debate even within the FI community about the value of pre-trade transparency, there is no debate about the value of post-trade data.

Why not then adhere to the old adage of 'walking before you can run' and save pre-trade discussions for the future so as to not have them hinder the formation of the optimal post-trade solution? Or, as the proverb observes, "a live dog is better than a dead lion" (Ecclesiastes 9:4).

In conclusion, as we head into the MiFID review, it is important to recognise that a functioning CT for FI products is as equally important to the FI market as it is to the equity market. Failure to do so, by in particular employing a 'cut and paste' of an equity solution across to FI, will at the very least result in an ineffective resolution - and at worst will impact the effective operation of our FI capital markets. ●