



# Discover How to Accurately Measure and Manage Fixed Income Trading Costs

---

**Dennis Dobson, CEO of Dobson Media Group interviewed Peter Weiler, President of Abel Noser Solutions on the challenges relating to measuring and managing fixed income trading costs and the benefits associated with utilizing Abel Noser’s TCA (transaction cost analysis) platform for transparency and compliance purposes.**

---

*Adapted from a live Web Clinic broadcast from One Battery Park Plaza in downtown Manhattan; August 2017.*

**Dennis Dobson:** Peter, tell us about these black holes that are vacuuming away some of our portfolio returns.

**Peter Weiler:** Well Dennis, what Abel Noser Solutions is doing is providing clarity. Using your “black hole” analogy, I assume you’re referring to the fact that for so many years, bond trading has occurred in the dark, with little public price discovery.

At the same time, now through legislation such as MiFID II, plus SEC and FINRA mandates, regulators are telling investors that fixed income trading is under greater scrutiny. I think traders, portfolio managers, and compliance officers will see fixed income TCA as a way to monitor trading while fulfilling their best execution obligations. And that’s where Abel Noser Solutions comes in.

**Dennis Dobson:** You mean in terms of accurately measuring and managing fixed income trading costs? Before we get to that, can you give us the background story on how Abel Noser developed fixed income TCA?

**Peter Weiler:** Sure Dennis. We have over 500 clients using our products in a multi-asset format with equities, forex, and futures. But the story behind the development of our fixed income TCA product involves one of our clients. They’re a multi-asset investment management firm with over \$25 billion under management, and the company’s fixed income head trader is mainly focused on managing the firm’s sell-side relationships, distributing trading according to research votes, and execution performance. By his best efforts, he was mainly steering trades to those dealers who most often came forward to offer competitive bids when he needed to trade.

Last fall, this fixed income head trader’s chief compliance officer let him know that the firm needed a fixed income measurement service like the one Abel Noser provides the firm for their equities operation.

And of course, unlike his equity desk counterpart, the fixed income trader had never been involved with a formal TCA process and was, frankly, somewhat out of his comfort zone. Yet he was being asked to present a best-execution report like the one produced by the company’s equity desk.

**Dennis Dobson:** They have 25 billion under management, and the equities group is using your TCA product, but now the fixed income trader is also being asked to measure his trading costs? How did it work out? After all, fixed income and equities can seem like very different animals.

**Peter Weiler:** No doubt. The fixed income head trader knew the TCA reports would show that his team was delivering best execution, but he felt that using an equity model would not reflect the reality of the differences between the two markets. His counterpart on the equity desk explained that our TCA product would provide enough data to answer any questions from compliance, the portfolio management team, or even the board of directors. So, he reached out to us.

**Dennis Dobson:** What were some of his requirements, or at least, main concerns?

**Peter Weiler:** First and foremost, they wanted to make sure that we had a strong grasp of the fixed income market structure; i.e. that we recognized the nuances and the limitations due to the lack of price discovery in certain areas.

For starters, we think of fixed income as a translucent marketplace and have years of experience in this area. There are certainly pockets of transparency, but there are also many opaque areas. And comprehensive trade cost benchmarking is very important. Fortunately, we had built up enough good will with the firm that the fixed income trader was willing to give us a chance. So we rolled up our sleeves together and dug into the problem to look for solutions.

**Dennis Dobson:** How did you get the data? Can you get into the weeds a bit more about the process?

**Peter Weiler:** Sure. We began by looking at the available market data. TCA is the process of joining public market data with private trading data. With fixed income, this data is dispersed among pricing services and trade reporting services as well as ATs and ECNs. Each has a piece of the total puzzle to contribute.

There is a natural feedback loop between the three main sources of information. You can see this illustrated in the below image. We look at evaluative pricing sources, bids and offers, and priced and sizes sources. We then aggregate this into the Abel Noser table of reference prices.

## AbelNoser SOLUTIONS >> Reference Prices and their Sources



**Dennis Dobson:** Now you have the pricing sources derived from ATs and ECNs, and reporting services like TRACE and MSRB. What do you do with the pricing data?

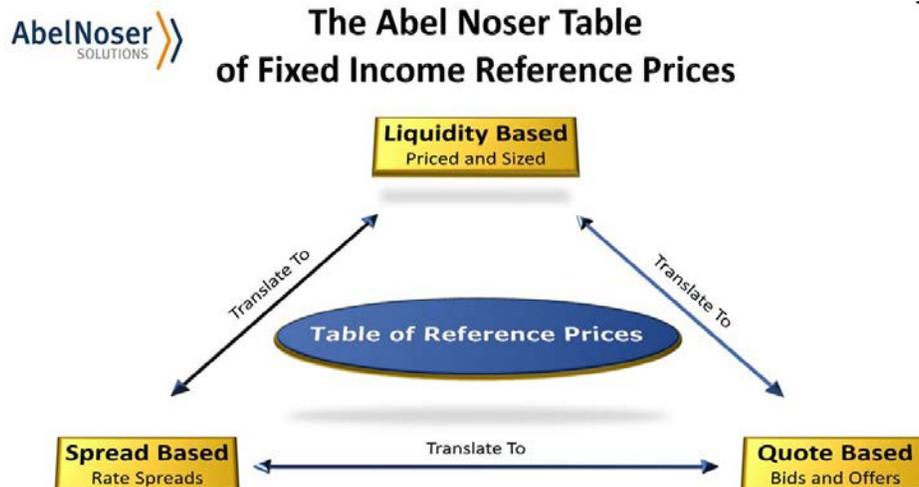
**Peter Weiler:** Right, so we created new metrics and gave them names based on the information that each of the pricing sources could produce:

For example, for sources that report trades that are priced and sized, Abel Noser calls these reference prices derived from these sources *"liquidity based"* reference prices.

The sources that provide bids and offers, we call “quote based sources.”

And for the sources that give us indicative prices or interest rate spreads over benchmark securities, we call these “spread based” reference prices.

**Dennis Dobson:** You have each of the different categories of reference prices coming from the three different sources as you explained and which is shown in the image below. What do you do with these very different sources of reference prices?



**Peter Weiler:** That’s a good question. We measure both the price the bond traded at and the interest rate the trader earned based on the price. The ideal outcome here is for a fixed income TCA tool to be able to move seamlessly between discussion about trade prices to talking about interest rates, or spreads, depending on whether we’re discussing governments, agencies, corporates, munis, mortgages, or even asset-backed securities.

We recognize that each of these markets has its own idiosyncrasies and that our reporting must reflect that. Factors such as macro news, benchmark interest rates, credit spreads and other fixed income type-specific features need to be calculated in.

**Dennis Dobson:** So how did you organize these, and make the idiosyncrasies of all the different fixed income products work together?

**Peter Weiler:** Working with the categories of reference prices or rates, and our associative linking process, we used the three sets of reference prices to fill in the gaps where we see them. So, if someone sends us a trade that’s quoted as a rate, but we only have price information or spread information, we can translate those back into the rate that the client traded. The aggregated information is utilized to provide various outcome reports, in other words, fixed income TCA.

**Dennis Dobson:** Very Interesting. Peter, what should our fixed income TCA be telling us? How do you get the most from performing TCA?

**Peter Weiler:** As we all know, fixed income trades almost entirely over-the-counter, in terms of instruments traded. Governments and new corporate issues can trade through ATs and ECNs, but to trade off the run corporates, or asset backed securities requires dealer facilitation. So, there is this gray area surrounding what one firm is paying for trades compared its to peers. Your fixed income TCA should be giving you an accurate reading on the overall market pricing of specific fixed income trades, so that you know if you are overpaying.

Traders need to understand what constitutes a fair price concession to get their trades done. They learn this by

polling multiple counterparties, but also from experience and measuring from the prices they see for similar instruments.

**Dennis Dobson:** Having access to as much trade cost data as possible will get you the most out of your TCA. So, what was the reaction from your client's board?

**Peter Weiler:** As I mentioned earlier, without the TCA process, the head trader couldn't report aggregate results to the board. He needed a way to collect all the information he saw every day and summarize it at periodic best-ex committee meetings as well as for the CIO and the board.

Abel Noser's universe of manager results enables us to produce reports that show how the fixed income desk head performed against other managers and desks who traded in similar instruments under similar conditions. I believe the board was very satisfied.

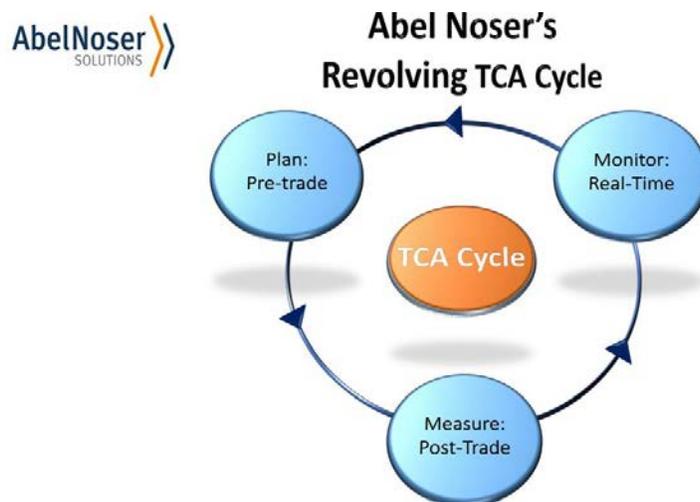
**Dennis Dobson:** How many trades are you measuring against? Is it a sample from a larger group of trade prices or are you comparing trade prices to an aggregate amount of trades?

**Peter Weiler:** We're working from a very large universe of data, with the ability to benchmark against up to 650,000 plus fixed income securities.

With the fixed income head trader of the client firm I was speaking about, we were able to develop a custom transaction cost measurement analysis system for that firm. And we collect the reference price and rate data from the sources I described, while our client firm provides us with the trade records to match the market data.

**Dennis Dobson:** Is that where your post-trade Trade-Zoom tool comes in?

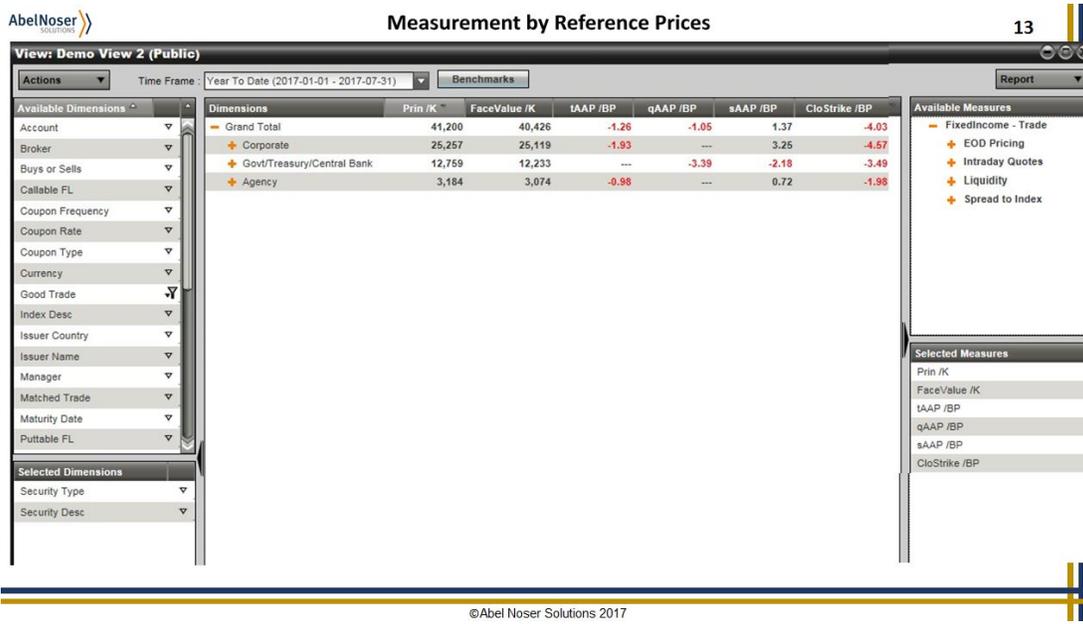
**Peter Weiler:** Exactly. Trade-Zoom is set up for compliance officers, portfolio managers and traders to review the aggregate results and focus in on trades that impact those aggregates. Then compliance officers, portfolio managers and traders can perform what Abel Noser calls the revolving TCA cycle, which is illustrated in the below image.



I just want to add that Trade-Zoom offers the ability to drill into any result on the fly and create a graphical display that reveals all the information one could want to know about a trade. We also offer completely custom reports to meet the needs of any buy-side or sell-side trading desk.

Can I show you a few key screen grabs?

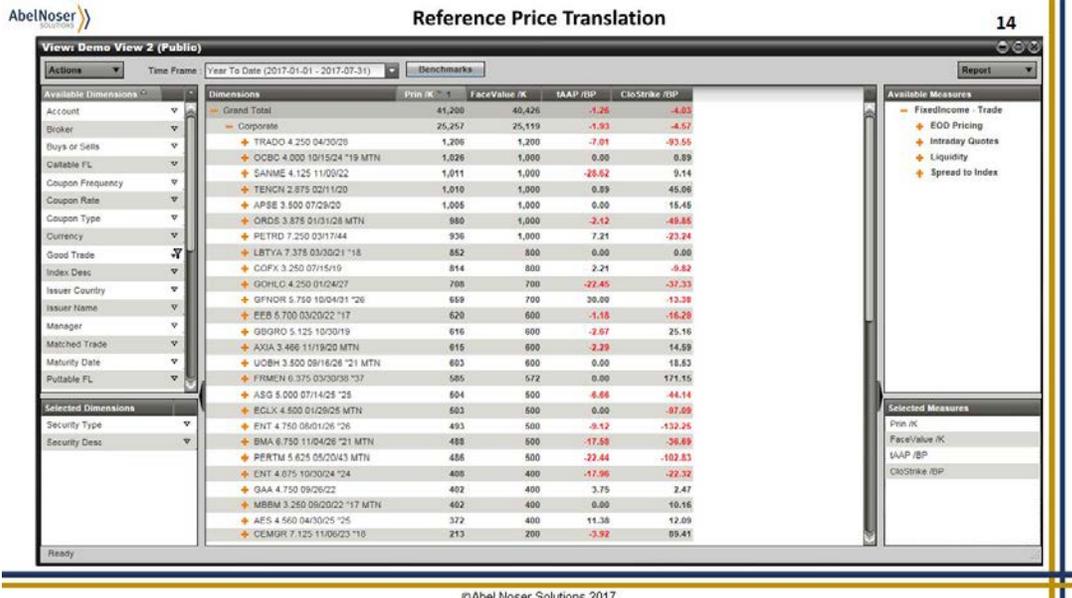
**Dennis Dobson:** Absolutely. Let's see what you have.



©Abel Noser Solutions 2017

This is trade zoom, our flagship post trade product which is the portal for all of our multi-asset TCA offerings. And you can see that the trades in different sectors of the market here can be measured versus the three different kinds of reference prices I mentioned: *liquidity-based*, *quote-based* and *spread-based*. Further, we can translate the results into prices, rates, and spreads. These can be shown in dollars or basis points.

We also recognize there is no single “fixed income market.” Each sector of the bond universe has its own methods and means of communicating prices and agreements to trade, so we must be able to speak to those constituencies and the product had better speak to them in a language they recognize as their own.



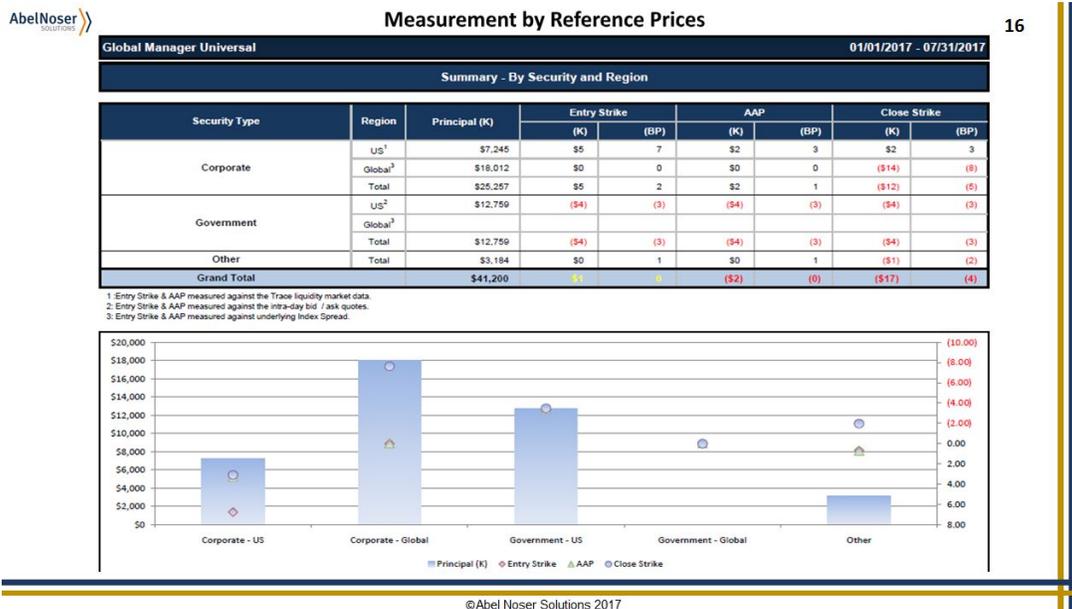
©Abel Noser Solutions 2017

For traders who trade on price, we can show prices; for traders who trade on rate, or on spread, it's essential

for us to show the trades in that frame of reference.

**Dennis Dobson:** I see. With all this aggregated data you have available, what do we do next?

**Peter Weiler:** Right. So, now trade zoom compares the firm’s trading costs and then execution reports can be created to fit the needs of whomever the user is.



For example, the head of fixed income trading can collaborate with the compliance officer to ensure that the firm is meeting its best execution obligations. The head of fixed income trading can also use the data to discuss with portfolio managers the causes and possible solutions to slippage.

As we get to more data from our clients, we will be able to produce more detailed universe benchmarks to indicate whether the trader’s costs are in line with the rest of its peers.

This information can also help the portfolio manager and his client services team when issues of best execution come up with clients. And the neat news here is that since we have so many clients and many of those clients have a fixed income component that benchmarking is happening rapidly here at Abel Noser Solutions.

As you can see, Trade-Zoom has a lot depth and plenty of features. Another exciting feature that we’re working on is an empirical model of the fixed income trading using the data that we’re collecting. When all is said and done, the trader, by using trade zoom and our custom reporting feature, can satisfy many constituencies both inside and outside his firm. And this has been the TCA model for many years in the other asset spaces such as equities, FX, and Forex. And now it’s quickly gaining wide acceptance in the fixed income market as well.

**Dennis Dobson:** I think we’ve learned a few things about fixed income TCA from our brief chat. Peter, thanks.

**Peter Weiler:** Thank you Dennis for the opportunity.

Just to re-cap, we believe we’ve developed useful methods for deriving reference prices from the various services that publish fixed income pricing and rate information. We’ve put these pieces of information together for you to create a holistic view of pricing in the fixed income market.

**Dennis Dobson:** By the way, what regions do you operate in?

**Peter Weiler:** This is a global product like all our other products, covering most bonds types that are out there. As I mentioned earlier, we are talking about 650,000 plus securities and if we don’t measure a particular security or bond,

we will add that to our security matter. We recognize that most of our clients are trading around the globe and the product and the coverage needs to match that trading activity.

**Dennis Dobson:** Is Abel Noser willing to come out and set up a free trial?

**Peter Weiler:** Absolutely, we've been doing this for many years. It's not only free, but there is no obligation. And it's typically the way for us and the client or prospect to understand the value of the solution. It's certainly a lot more fun to see some historical data that is the prospect's data rather than demo data. We'd be happy to run any sort of representative time period for folks that are interested.

**Dennis Dobson:** How about set-up. Is that a quick process?

**Peter Weiler:** It's really a matter of weeks. The onboarding takes place by first having that trade extract sent over to us from the order management system or EMS execution management system. And the trade extracts are sent to us, and scrubbed, and sent back. And at the same time, what we're doing is sitting down as part of the onboarding process and conducting the training that is necessary for the staff that will be using the product.

**Dennis Dobson:** Finally, what about pricing?

**Peter Weiler:** As a software service model, you receive unlimited firm wide licenses. And pricing is based on a number of factors including the frequency of reporting and the principal amount of trades measured. And, typically included in the product is a consultative service to interpret the reports and provide actionable recommendations. Behind that also is an extraordinary client support team. We feel this is the strongest model: a combination of software meets gray matter in terms of providing consultative services as well.

**Dennis Dobson:** Any final words?

**Peter Weiler:** I'd like to just thank everybody who joined in. See you all next time and thank you so much for participating. Have a great day.

---

*A link to the live recording of the web clinic is available at [abelnoser.com](http://abelnoser.com). Abel Noser would be happy to conduct a free, no obligation trial. To see how you can get started with our TCA and surveillance solutions, please visit our website or drop us an email at [info@abelnoser.com](mailto:info@abelnoser.com)*

*Copyright 2017 – Abel Noser Holdings LLC – All rights reserved.*