What is the future of electronic muni trading?

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WASHINGTON – Developments in electronic trading are inevitably moving muni and other fixed income trading toward a more equity market-like structure, though the movement is slow according to an executive at an alternative trading system.

Lee Olesky, co-founder and chief executive officer at Tradeweb Markets, discussed the future of electronic trading in the municipal market during a session at the Bond Dealers of America's National Fixed Income Conference here Thursday. Moderating the discussion with Olesky was Brad Winges, a managing director and head of fixed income services at Piper Jaffray. The discussion touched on the impacts electronic trading advances in the market are likely to have on spreads, transparency, and liquidity.

Olesky, whose firm operates an alternative trading system (ATS), said he expects fixed income markets to move increasingly towards electronic trading that will "at a high level" resemble the way stocks are traded. But the bond markets are fundamentally different from equities, so even as the change happens it will be deliberate and likely never quite the same, he said.

Piper Jaffray's Brad Winges

"For the next five years, I don't see a lot changing there," said Olesky, except increased efficiency with the advancement and integration of technology into fixed income trading.

Increasing electronification and automation will lead to tighter spreads, Olesky said, and generally better liquidity as sellers can more easily connect with buyers on the other ends of transactions. But Olesky cautioned that the ambitions of regulators to use trading technology to create total transparency could have a detrimental effect.

The Securities and Exchange Commission and the Municipal Securities Rulemaking Board have signaled that they are interested in ATS' and how technology could move the muni market to greater transparency.

"I look at Europe, and everything is in now," said Olesky. "Pre-trade, post-trade. It's all going to be public data."

The knowledge that all details of a transaction will be public could have a certain chilling effect, he added. Particularly large, market-moving transactions can be problematic when it comes to disclosure because that kind of instant transparency limits the ability of the seller to hedge its risk, Olesky said.

“If you say we’re going to disclose everything all the time, that’s going to have a real impact on liquidity,” he said.

The BDA conference continues Friday.

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