Crisil
Coalition
Greenwich

Rethinking How to Work a Bond Order

October 19, 2021

We recently gathered input from 16 corporate-bond liquidity providers, examining their views on liquidity, where they see opportunities for innovation and the market's next step forward. Their key areas of planned investment—direct connectivity to clients and ways to better leverage their client network—are another sign that the market has fundamentally changed from its post-credit-crisis norm.

But not everything has changed.

Working a Trade: Then and Now

"Working a trade" is the industry vernacular for how dealers and other liquidity providers help clients execute their orders. In highly electronic markets like equities, this most commonly entails selecting the right execution algorithm in which to enter the order.

In over-the-counter markets, however, finding the other side of a trade can be much more complicated. In the good old days—pre-2008— the dealer often accomplished this by simply buying the bond from the customer and putting it into their own portfolio (aka capital commitment, using the balance sheet and/or taking the bond into inventory). This gave (what turned out to be) the illusion of instant liquidity.

For the past decade, however, with balance sheet less available, working a trade more often entails the liquidity provider tapping their client network in hopes of finding someone that is interested in doing the opposite of what the order-placer is doing: a seller for the buyer or a buyer for the seller. If this sounds like finding a needle in a haystack, it essentially is. One could argue this is exactly what sell-side bond traders truly get paid to do.

However, while the buy side continues to move a larger share of its trading onto the screen (accounting for 39% of investment-grade bond trading volume in August 2021), the dealer community still works most of its client trades the same way it did in 2007. Roughly two-thirds of bond dealers told us that their most common methods of working a trade are sending targeted chats and calling clients directly. And only half said they take the bonds into inventory—still a high percentage, but certainly less than it would have been 15 years ago.



Of the newer liquidity-sourcing tools available, using an anonymous liquidity pool is the most common method, at 25%. This reflects dealers' growing adoption of MarketAxess's OpenTrading and Tradeweb's Dealer Sweep. On the other hand, managing risk via ETFs—a popular topic in fixed income—was cited by only 13% and is used mainly by the nonbank liquidity providers.

E-Trading Tools Bolster Dealer Relationships

These findings convinced us that there is still a significant opportunity for electronic trading tools to help the sell side work their client orders. There is also an equally large opportunity for the buy side to better leverage their dealer relationships.

It is important to note, however, that while traders are still chatting and calling clients directly, they are doing so exponentially better informed than their predecessors were in the '80s and '90s. A recent Greenwich Report explains:

"To be fair, what this question doesn't capture is how those liquidity providers decide whom to call or IB, what prices to bid or offer, and when it makes sense to commit capital to a given client or trade. Data and analytics from the trading venues, data providers and liquidity providers themselves drive much smarter decisions and allow orders to be more smartly worked, even if they are worked through legacy channels."

Nevertheless, the current process should be taken several steps further. Why not reinforce the current dealer workflow by taking the data that informs the trading desk today and use it to suggest trading opportunities to clients directly, creating a digital trading floor?

This idea has taken on a whole new meaning in today's world. The dealer still owns their customer network but is now able to use it more efficiently. This change doesn't need to replace the existing workflow that allows market participants to seek liquidity via a trading venue, but it could greatly enhance the dealer processes used to fill client orders submitted via RFQs or anonymous pools.

A More Multilateral Model

Thinking further ahead, markets could move toward a more multilateral model. While all-to-all trading pools allow every flavor of market participant to act as both a maker and taker of liquidity—regardless of their trading counterparty's firm type—the resulting trade remains between just two counterparties (even when an agent sits in between).

The corporate bond market is only now evolving to allow multiple counterparties to help fill a single large order, which has long since been the case in U.S. equity markets. New entrant LTX's offering is a good example of this.

A mechanism to allow this would do a few things. First and foremost, the order initiator could see price improvement with more than one contra-participant involved in the transaction. For example, think about a regional bank that can't bid on the $5 million block but could offer the best price on $1 million. Combine that with similar bidders, and the seller could come out ahead by executing the full amount, potentially with price improvement due to increased demand. How this expected price improvement would stack up against other mechanisms, such as all-to-all and portfolio trading, remains to be seen.

Second, such a model could bring more liquidity providers to the table. Those able to offer quality prices but in smaller sizes could start to see higher hit rates and interactions with more customers, even if via a large dealer acting as agent. The corporate bond market has seen electronic liquidity jump in amount and quality over the past several years, as nonbank liquidity providers have entered the scene. We think this model could play a part in driving that further forward.

And third, this could help dealers rethink how they tap their client networks to unearth liquidity while simultaneously limiting their need to utilize scarce balance sheet. Systemically showing trading opportunities to other clients and then aggregating their offered liquidity back to the order initiator could ultimately create a better outcome for everyone, especially for larger orders that might be hard to execute on the screen today.

Getting There

This is all much easier said than done. The industry needs data scientists galore to automate the mind of the modern bond trader. And changing mindsets and tried-and-tested workflows can often be more difficult than the most complicated quantitative model. But ultimately, technology like this only makes people smarter and allows them to spend time on even more complex tasks they didn't have time for in the past. A global pandemic didn't end the trading floor, and neither will AI.

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic

benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data

submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.