Crisil Coalition Greenwich

Fixed-Income Markets Fight to Modernize Their Technology

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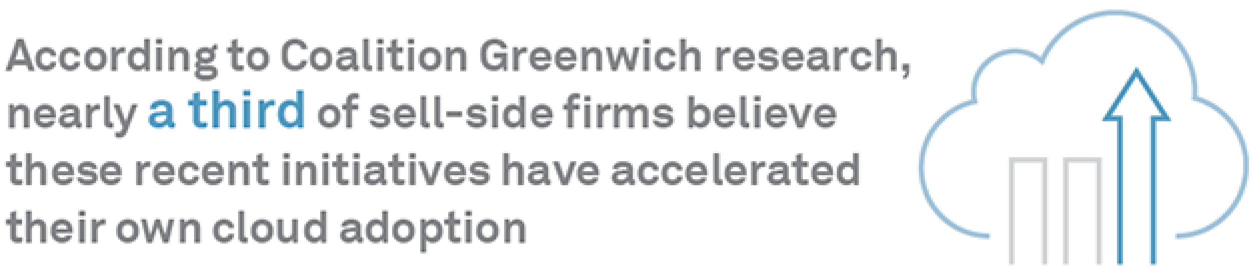
Most buy-side and sell-side firms are seeking to implement modern technology (e.g., cloud computing, AI, APIs) across the trade lifecycle for many reasons, from cost reduction to increasing their competitive position. As with much of today’s tech, some workflows are ripe for the cloud, APIs and other advancements, while other areas lag and are still residing in the stone age of Excel spreadsheets and Post-it Notes. Such is the dilemma of the fixed-income desk where, in some cases, professionals are hesitant to move full steam ahead, citing structural, regulatory and security concerns.

From the purview of cloud providers, the pace of technological change is extremely fast—a phenomenon that spans broad areas well beyond capital markets. However, various nuances across asset classes have led to different outcomes along the adoption curve. For instance, fixed-income and foreign-exchange (FICC) desks are lagging tech adoption in more developed and data-centric asset classes like equities.

Is Peer Pressure Having an Impact?

Many industry professionals agree, attitudes toward new technology are changing as market-structure and fixed-income “culture” evolve—albeit with some help. ICE’s cloud spend with Amazon Web Services (AWS) and Azure, Nasdaq’s partnership with Amazon, LSEG’s relationship with Microsoft, and CME Group’s decision to move market data to Google Cloud over a 10-year timeframe put exchanges in the driver’s seat when it comes to technology prioritization.

In fact, exchanges now appear to be forcing it to some degree—at least from the “withitness” standpoint.



Note: Based on 53 buy-side and 14 sell-side respondents.
Source: Coalition Greenwich Voice of Client 2022 Cloud Computing Study

Even the infrastructure crowd seems to have gotten with the program with FINRA’s Consolidated Audit Trail (CAT) using AWS. This, of course, brings up more use-case questions across the entire trade lifecycle with plenty of nuance baked in. Fixed-income professionals must consider not only their own business but an array of vendor, platform and exchange dependencies in some of the workloads.

But does this mean there's a ton of impetus to shift FIX engines on cloud? Although API use has become the gateway drug, many just don't view full modern tech adoption in traditional areas as anything realistic for some time—no matter the peer pressure.

What is Hindering the Use of Modern Technology by Fixed-Income Teams?

According to our recent research, set-up costs are a massive barrier, as said by nearly 60% of both buy-side and sell-side firms. This sentiment was most acute in the regtech functions. But should this be really surprising?

Sunk costs, particularly in the tried-and-true systems a regulator may often turn to, may prevent future spend on modern technology. For fixed-income desks in particular, latency will also determine tech prioritization. Outside of U.S. Treasuries, most products trade at a very low frequency. Although data is growing, it's tough to justify increased spend on data consumption and analysis tools.

There's a Lot to Think About

Although there is much talk that more data equates to more tech, in fixed-income markets, this may simply not be the case for very practical and economic reasons. While reality may be a bit gloomy today, there are some bright spots for modern tech adoption, including the cloud, particularly in FICC, where nearly half of study participants agreed the space was ripe for a tech upgrade.

At the end of the day, while this is likely true, whether firms will all fall in line and how quickly it happens remains to be seen. Perhaps the industry just needs a little more peer pressure.

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