Electronifying Corporate Bond Block Trading

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Executive Summary:



Despite the growth in electronic trading in the corporate bond market over the past decade, block trades, defined as those with a notional value of $5 million or more for investment grade and $1 million or more for high yield, remain predominantly executed via phone and chat. Case in point, 68% of buy-side traders manually select dealers to include in their RFQ, underscoring a persistent reliance on interpersonal relationships and manual processes. With only 10% of buy-side block-sized orders executed electronically on average by our study participants, a huge opportunity exists for those able to inject automation and efficiency into the process. Leveraging new technology and protocols to bring block trades onto electronic platforms could act as a catalyst for overall electronic trading advancement, especially considering the stagnant growth of market-wide e-trading over the past two years. Relationships still matter, with access to new issuance and market color commonly cited. Nevertheless, the potential benefits of executing more block orders on screen coupled with tools that that allow relationships to stay intact suggest change is on the way. The study offers insights into the current state of block trading, identifies roadblocks and proposes strategies for a more electronic future.

Methodology:

This research is primarily based on interviews with 53 buy-side corporate bond traders in the U.S., Europe and Asia in August and September of 2023. Study participants answered questions about their trading habits, dealer relationships, technology usage, and other market structure-related questions. Market-wide data referenced in the report was largely gathered from Greenwich MarketView and FINRA TRACE.

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