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FICC Front-Office Buy-Side Trends: Even If You Build It, They May Not Come

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IMPACT POINTS

- In a partnership with Institutional Investor, Aite Group launched an electronic survey focusing on buy-side firms' adoption and use of fixed income transaction cost analysis (TCA). These managers were asked about trends in the space as well as challenges around data, technology, and market structure.
- Initial survey findings suggest only a fraction of asset management firms that hold fixed income instruments in their portfolios use TCA to measure the cost impact of their investments. Out of a total of 105 responses, a mere 28 participants (27%) replied to the survey indicating they were currently using fixed income TCA analytics.
- Total TCA spend dedicated to fixed income varies widely and depends on the breadth of asset classes a buy-side firm invests in. While the majority of participant multi-asset class managers allocate less than 25% of total TCA spend to fixed income, some managers are choosing to utilize more TCA dollars for the asset class. These managers were found to analyze a full spectrum of fixed income instruments beyond rates and credit.
- TCA is not a one-size-fits-all solution. Although third-party TCA vendors often offer multi-asset class solutions, survey findings suggest buy-side firms are just as likely to use one platform for TCA across asset classes as they are to stitch together multiple solutions—including in-house analytics. Given data limitations and the evolution toward more complex portfolios, survey results follow trends seen in other areas, such as risk, for which a combination of best-of-breed solutions is preferred.
- Buy-side managers most often invest in rates and credit instruments. Likewise, TCA analytics are most often applied to these securities, particularly over the past three to six years. More recently, respondents indicate a shift toward a more even use and distribution of TCA analytics. TCA around instruments such as bond exchange-traded funds (ETFs), listed fixed income derivatives, and over-the-counter (OTC) rates and credit derivatives is becoming more common.
- When asked what matters most when choosing a third-party TCA solution, surveyed firms point to data, the breadth of coverage, and the analytical tool suite. When it comes to reducing cost and streamlining workflow, access to data and evaluative pricing was mentioned as a top consideration in addition to more common use cases, such as trader evaluation, trade impact, and internal communication. As data transparency continues to improve, Aite Group expects data access to become one of the most important elements.

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INTRODUCTION

TCA is targeted at enabling investment managers to measure the effectiveness and impact of portfolio transactions, but it seems that in the fixed income, currency, and commodities (FICC) markets, these firms just aren't interested. In June 2018, Aite Group discussed multi-asset class TCA in depth in its report *MiFID II Best Execution: Multi-Asset Class TCA Goes Mainstream,*[1] which highlighted the rise in the number of TCA-related services across the market. While TCA has become a ubiquitous practice for equities, the study identified the FICC asset classes as a source of frustration for managers trying to better understand how their execution choices and market intelligence (or lack thereof) impact trading costs and inform portfolio optimization decisions.

FICC TCA solutions were part of nearly every product roadmap for TCA providers in 2018 and beyond. But even if you build it, they still may not come. This notion is especially true for the buy-side, for which bare-minimum starter TCA applications designed for checking boxes are still alive and well. Although best-execution practices have evolved beyond analysis designed to avoid fines from regulatory agencies, buy-side institutions vary widely in their acceptance and use of cost analysis. This means that two asset management firms that look similar on paper may likely be using TCA in very different degrees, resulting in higher costs and lower profitability for one firm versus another.

Presently, data availability and quality are top concerns among both buy-side and sell-side users of fixed income TCA solutions. Investment firms managing portfolios of bonds, OTC derivatives, and structured products are particularly concerned by the dearth of observable data points. In lieu of hard data, proxies and models have filled some of the gaps with some success. Still, the evolving nature of fixed income transparency has had its impact on the robustness of TCA applications and acceptance of such solutions. This report focuses on how the few users of fixed income TCA solutions navigate these challenges and apply cost analysis techniques to their portfolios as well as downstream applications. It also examines why the vast majority of the market is so far behind in adopting TCA for FICC.

METHODOLOGY

In a partnership with Institutional Investor, Aite Group launched an electronic survey focusing on buy-side investment managers' adoption and use of fixed income TCA. The global survey was conducted from September to October 2018. In total, 105 buy-side institutions that invest in fixed income securities responded to the survey.

SURVEY DEMOGRAPHICS

Initial survey findings suggest that a fraction of the buy-side investment management firms that hold fixed income instruments in their portfolios use TCA to measure the cost impact of their

1. See Aite Group's report *MiFID II Best Execution: Multi-Asset Class TCA Goes Mainstream,* June 2018.

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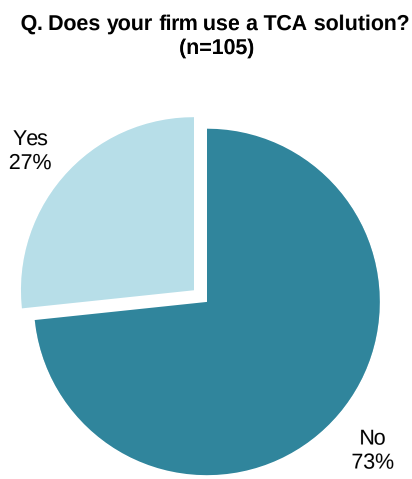
investments. Out of a total of 105 responses, a mere 28 participants (27%) indicate they are using TCA analytics for the asset class (Figure 1).

Figure 1: A Fraction of Participants Are Using Fixed Income TCA



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

Table A describes the participant breakdown by region. Geographically, the majority of participants hail from the Americas (71%). European and Asian participants only account for 11% and 17% of total responses by region, respectively. The count of responses stating fixed income TCA is not being used outpaces the instances of which it is in all regions.

Table A: Regional Breakdown of Fixed Income TCA Use

Region	Yes	No	Sum
Americas	22	53	75
Europe	2	10	12
Asia	4	14	18

Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

Figure 2 breaks down the regional data in Table A to the country level. The results are notably U.S.-centric, with 66% of responses from that country. Additionally, in every country with more than one respondent, fewer buy-side firms are using cost analytics in relation to their fixed income portfolio than are not.

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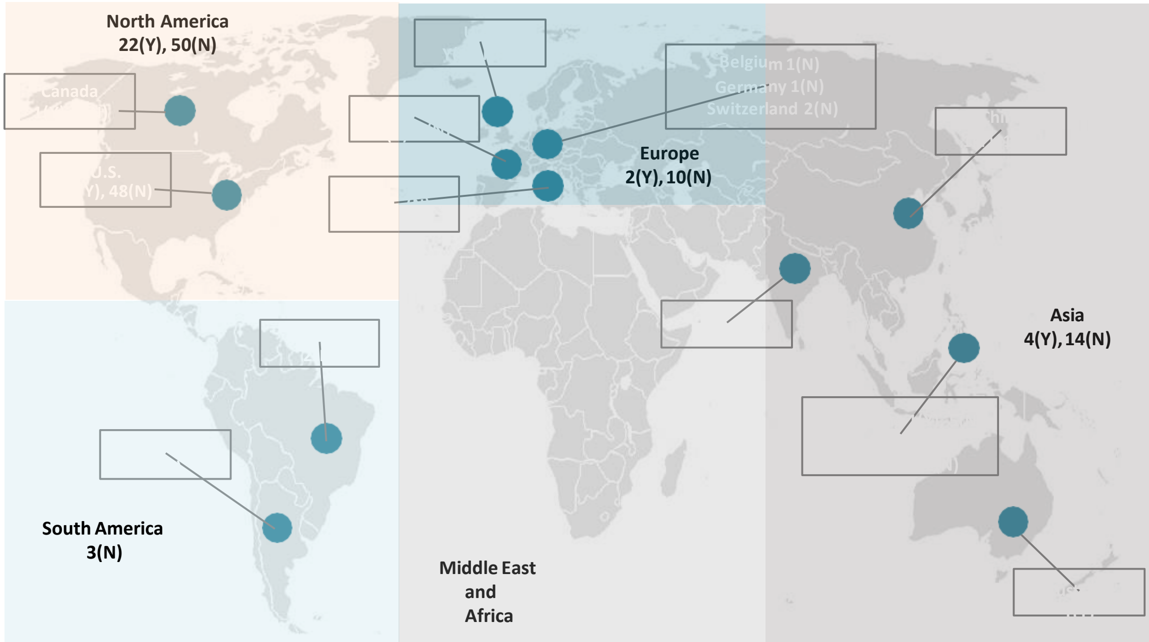
Figure 2: Use of Fixed Income TCA by Respondent Country



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

Aite Group suspects many European participants were unfortunately not reached. However, there is some evidence there may be issues with Markets in Financial Instruments Directive (MiFID II) best-execution compliance. A recent survey by Cappitech found that more than half of surveyed firms aren't producing Regulatory Technical Standards (RTS) 27 reports and 60% do not intend to do so.[2] While MiFID II has certainly brought best execution—including TCA—back to the forefront, some buy-side firms are looking to their dealers to help with compliance while others are just not prepared for the data and analysis burden. Aite Group doesn't believe this is ambivalence, as feedback suggests these firms are busy with the task of staying in business and are often overwhelmed by the technical and data requirements of compliance.

The majority of investment managers apply cost analysis to their fixed income investments without being required to do so as a consequence of regulations (Figure 3). Given the geographical concentration of participants in North America, this result makes sense if these firms fall outside the reach of MiFID II. However, ongoing U.S. rules play a role. For example, the SEC has always stressed that "the quality of execution must be viewed from the customer's perspective and not the firm's."[3]

2. "Cappitech MiFID II Industry Survey Finds High Percentage of Non-Compliance in Best Execution," Cappitech, November 13, 2018, accessed January 10, 2019, https://blog.cappitech.com/cappitech-mifid-ii-industry-survey-finds-high-percentage-of-non-compliance-in-best-execution.

3. Arthur Levitt, "Speech by SEC Chairman: Best Execution: Promise of Integrity, Guardian of Competition," SEC, November 4, 1999, accessed June 26, 2018, https://www.sec.gov/news/speech/speecharchive/1999/spch315.htm.

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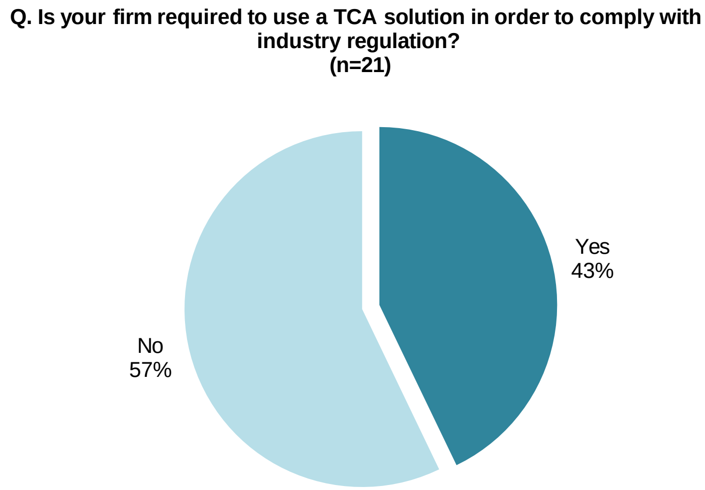
Figure 3: The Influence of Regulation on TCA Use



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

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THE MARKET

The adoption of TCA analytics by both the buy-side and sell-side can be traced back to the 1990s when the first iterations of cost analysis were introduced to equity market participants. As data electronification led to improvements in data quality, TCA became available in other markets such as foreign exchange (FX). While the fixed income asset class is considered a key market for investment and trading, the application of cost analysis to such a wide and diverse universe of instruments has hindered the creation of robust solutions and standardized, widely accepted practices.

Buy-side fixed income managers have chosen not use TCA in relation to their fixed income portfolios for a variety of reasons, which may be split into four main categories of avoidance (Table B). At the top of the list, managers point to the lack of actionable statistics, such as real-time metrics, needed to make an impact on the bottom line. Many managers perceive fixed income cost analysis to be more of a backward-looking process mainly used to generate dealer report cards and keep counterparties honest. To a certain degree, they may be right, but even basic cost analysis still offers value.

The notion that TCA isn't a good fit for fixed income investing has also come up as a reason to not bother developing or investing in a solution. Much of this type of avoidance stems from the misconception that TCA is "really just for equities" or that there is no clear application for the fixed income asset class—a perception that solutions providers really need to pay more attention to. Proving that new fixed income-specific developments are available and tailored to the asset class (rather than shoehorning an equity solution into fixed income investing) will likely continue to be an uphill battle.

Some buy-side firms take matters into their own hands when it comes to figuring out transaction costs. Unfortunately, many of these methods fall short in terms of robust, insightful analysis and are instead used as a bare-minimum approach to check some compliance box or as a misguided discussion point with investors. For example, some traders and analysts are still getting out the old spreadsheet to record bid-offer spreads independent of how the market traded throughout the day and the impact of the trade. This is not TCA. No doubt a variety of other manual methods still exist that don't really get to the heart of cost analysis. Many of these firms will likely continue to believe that what they are doing is good enough.

Finally, we can chalk up the final category of TCA avoidance to the perception that cost analysis just isn't needed. Clearly stating that TCA isn't relevant to an investment process flies in the face of decades-old academic research as well as more recent studies.[4] Excuses in this category range from the size of the organization to the frequency of trading falling outside a threshold that justifies the cost of a solution or any internal effort. Is it really even possible some people think

4. For example, an independent TCA conducted by IHS Markit recently measured an 87% transaction cost savings by trading on Liquidnet Fixed Income, relative to the best dealer price at the time of execution, based on prices available from the IHS Markit feed. See "Liquidnet Delivers 87% Transaction Cost Savings to Clients for Corporate Bond Trades," BusinessWire, July 11, 2018, accessed January 15, 2019, https://www.businesswire.com/news/home/20180711005452/en/Liquidnet-Delivers-87-Transaction-Cost-Savings-Clients.

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there are criteria to be met when attempting to save money? Additionally, misperceptions around TCA have also kept this group away. Viewing TCA as a solution that “tells us where the market is” points to the need for far more education from the industry.

Table B: Main Reasons the Buy-Side Avoids Fixed Income TCA

Avoidance type	Top excuses from survey participants
Fixed income TCA data is not actionable.	“The data just isn’t there yet.” “TCA fixed income data has no impact.” “I am not aware of a robust solution (for U.S. mortgage derivatives).”
TCA doesn’t suit fixed income trading.	“The equity guys use it, but we trade fixed income so we don’t use TCA.” “We don’t use algos and wouldn’t benefit.” “What’s different versus what’s been done already?”
What’s being done instead is good enough.	“Transactions costs are measured in terms of bid-ask spread and the sales credit associated with each trade.” “Our third-party attribution model provides trade cost statistics.” “Different desks have different manual solutions.”
We just don’t need it.	“Transaction costs are not relevant in our investment process.” “Our firm makes long-term investments and we don’t trade a lot.” “We are a small manager and view TCA as an unnecessary cost.” “We are in the markets and trade every day—we don’t need a service that tells us where the market is.”

Source: Aite Group

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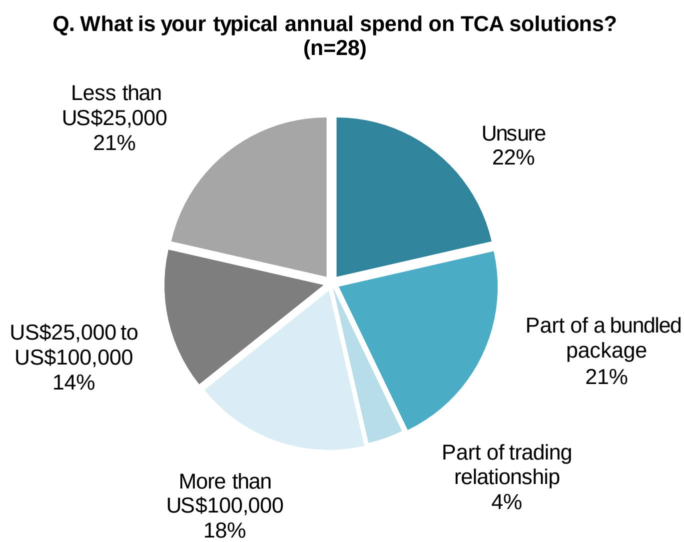
THE FIRMS THAT USE FICC TCA

The following sections describe trends and challenges faced by buy-side firms employing TCA solutions with respect to their fixed income portfolios. Amazingly, the study revealed half of the participants spend the least amount of money on their fixed income TCA solutions. And when they do use cost analysis, it is often in relation to rates and credit trading only.

ANNUAL TCA SPENDING (SPOILER ALERT, IT'S NOT HIGH)

Survey participants were asked what they spend on TCA annually. Respondents who replied to this question were often at the lowest and highest end of the spectrum, spending up to US$25,000 per year and beyond US$100,000 per year, respectively. Those who use TCA services as part of a bundled packaged (e.g., part of a greater suite of services) were on similar footing (Figure 4).

Figure 4: Annual TCA Spend Breakdown



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

One interesting observation revealed in this study involves the amount of TCA spend dedicated to the fixed income asset class as a portion of total TCA spend. As Figure 5 describes, half of the participants who responded to this question put the smallest portion of their total TCA spend (1% to 25%) toward their fixed income portfolio. All managers in this group invest in multiple asset classes. For example, each has both equities and fixed income instruments in its portfolio. Four firms also have FX investments, while one manager applies cost analysis to OTC instruments (in addition to equities and fixed income).

The middle tier (26% to 75%) is made up of buy-side firms that also invest in fixed income, equity, and FX instruments. On the fixed income side, however, a larger portion of annual spend is dedicated to the asset class. These firms tend to use TCA beyond rates and credit and often

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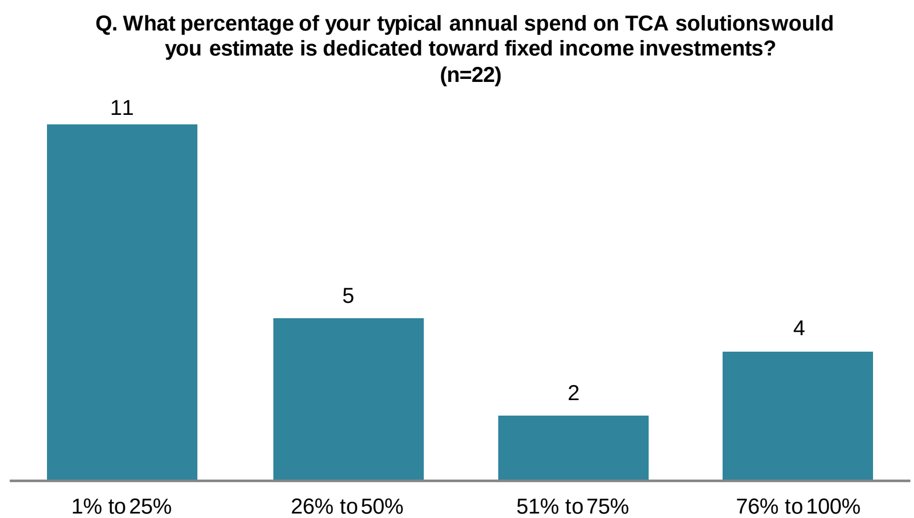
apply cost analysis to bond ETFs, bond futures, interest rate swaps (IRS), and credit default swaps (CDS).

At the highest end, firms that spend 76% to 100% of their total TCA spend are unsurprisingly fixed income shops that mainly use TCA for their rates and credit portfolios. Although investment extends to bond ETFs, listed futures, and OTC rates and credit, these respondents tell us they do not use cost analysis in relation to these instruments at this time.[5] Thus, the slicing and dicing of TCA budgets at the low and middle tiers follows the trend toward more varied and complex portfolios, while stronger investment in fixed income analytics at the highest end best suits more niche investors.

Figure 5: Annual TCA Spend Dedicated Toward Fixed Income Investments



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

WHERE ARE FIRMS ACTUALLY USING TCA?

The majority of TCA vendors profiled in *MiFID II Best Execution: Multi-Asset Class TCA Goes Mainstream* indicate they offer multi-asset class TCA solutions in at least two asset classes with many providing insights across equities, FX, futures and options, commodities, structured products, and ETFs. Few providers have remained focused in one area.[6] However, there is no solutions provider claiming specialization in the fixed income asset class. This is perhaps good news for would-be entrants as the asset class continues to evolve and survey findings suggest buy-side clients are slow to adapt. Someone needs to light a fire.

5. Three of the four respondents only invest in fixed income instruments. One participant invests in equities and fixed income rates and credit.

6. See Aite Group's report *MiFID II Best Execution: Multi-Asset Class TCA Goes Mainstream*, June 2018.

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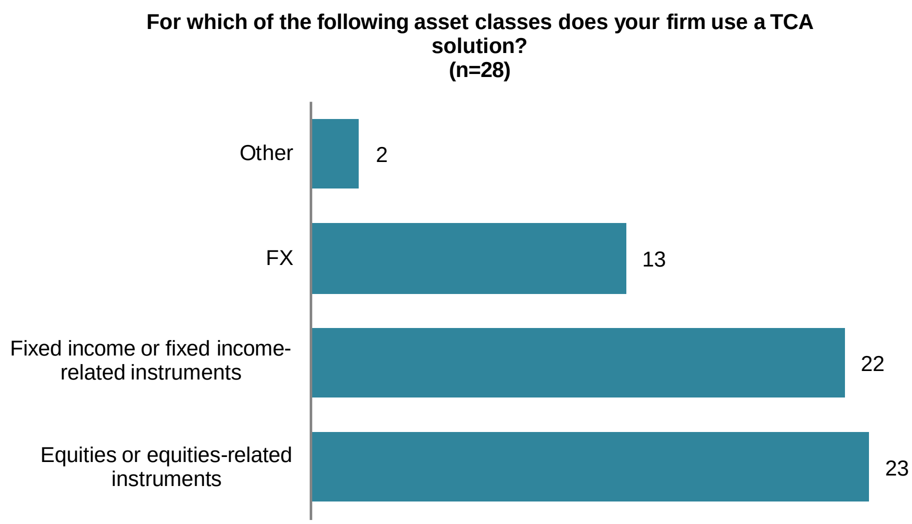
Buy-side firms often utilize a single platform across asset classes for the purpose of cost analysis. Cost and operational efficiencies can be realized by using a single service provider; however, the vast differences between equities and the FICC asset classes—particularly from a data and modeling perspective—have pushed many firms to stitch together multiple services or create internal systems to fill the gaps.

The count of TCA solutions by asset classes is presented in Figure 6. Since the survey targeted managers with a fixed income presence, is it unsurprising to see similar counts across equities and fixed income instruments. Likewise, 13 participants utilize FX TCA solutions. Two participants indicate they use TCA for OTC instruments (i.e., “other”).

Figure 6: TCA Use Across Asset Classes



Source: Aite Group and Institutional Investor’s survey of 105 buy-side fixed income managers, September to October 2018

Looking deeper into how managers utilize their solutions by asset class, findings show users are nearly as likely to combine a fixed income TCA solution with that of other asset classes as they are to use a stand-alone system (either internal or external) to measure the nuances of fixed income instruments and their cost impact (Figure 7). Annual spend and the means by which the system is delivered (e.g., as a bundled service) does not appear to influence whether systems are combined. Additionally, “some but not all” speaks to using a TCA for some elements of an asset class but not all. Taken together, this result suggests there is no one-size-fits-all multi-asset class solution for buy-side managers.

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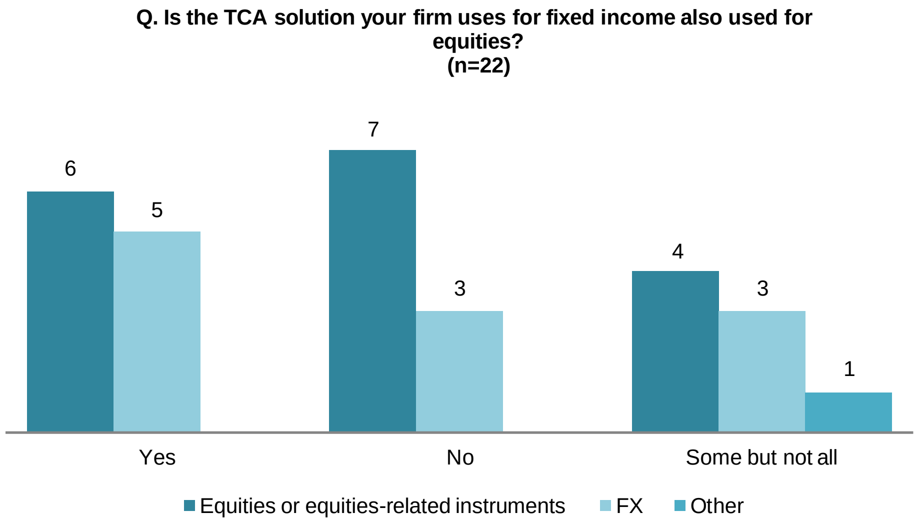
Figure 7: Specificity of Fixed Income TCA Solutions



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

Survey respondents take varied approaches when it comes to analyzing the cost impact of instruments in their portfolios. Figure 8 details the count of fixed income instruments each firm invests in as well as whether TCA is done in relation to these investments. Interestingly, buy-side firms tend to stick with cost analysis focusing on rates and credit, ignoring other areas of investment such as bond ETFs, exchange-traded derivatives (ETDs), IRS, and CDS.

Most often, buy-side managers both invest and conduct cost analysis in relation to rates and credit products. Although fairly good data is available for bond ETFs and listed derivatives (e.g., ETDs), an almost equal number of participants invest and use TCA versus those that invest without using the benefit of cost analysis. OTC instruments such as IRS and CDS have the least amount of TCA associated with investment.

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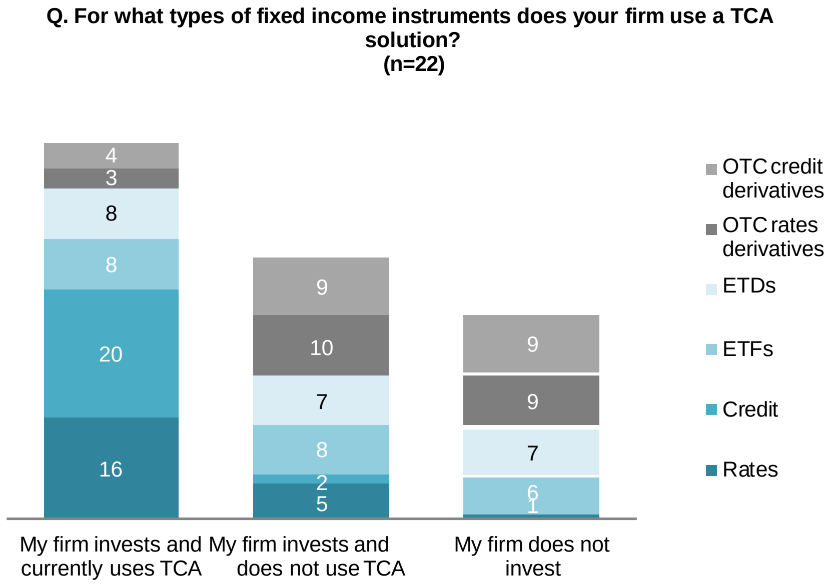
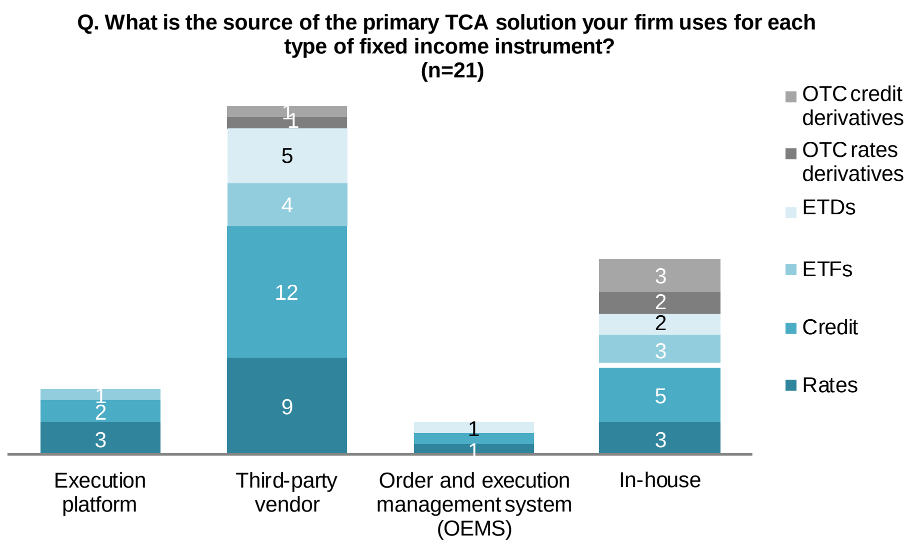
Figure 8: The Relationship Between TCA Use and the Investment Portfolio



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

Surveyed buy-side firms most commonly rely on third-party vendor solutions for TCA across various types of fixed income cash and derivative instruments. The use of platform-specific solutions is concentrated in rates and credit, where the majority of cash electronic trading occurs. Instruments that lack transparency, such as credit, OTC rates, and credit derivatives, tend to be analyzed via in-house technology alongside more liquid rates transactions. A summary of the various types of TCA providers is available in Aite Group's *MiFID II Best Execution: Multi-Asset Class TCA Goes Mainstream* report. Aggregated survey findings are presented in Figure 9.

Figure 9: Primary TCA Solution Sources for Fixed Income Analysis



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

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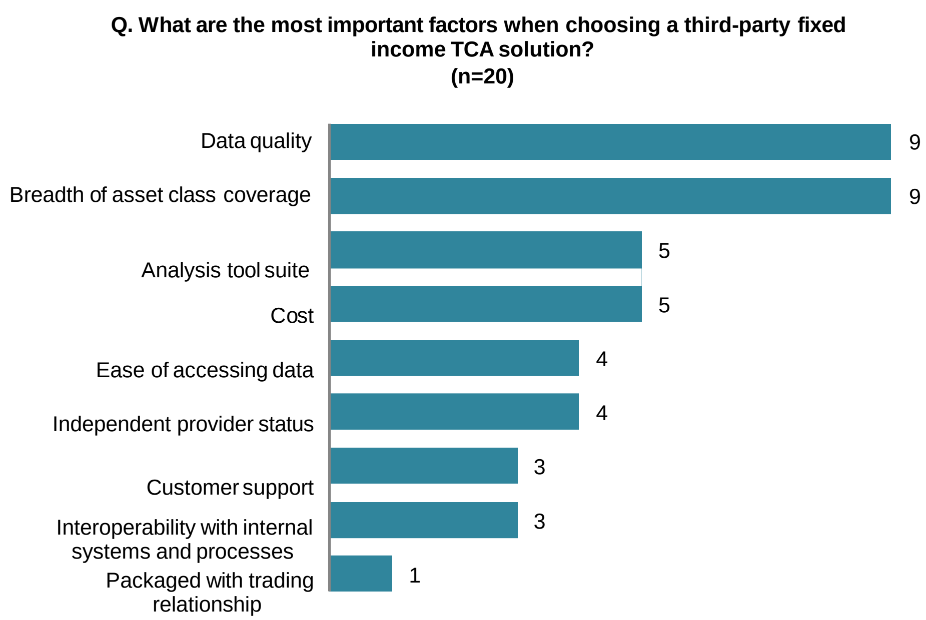
WHAT FIRMS THAT DO BUY WANT FROM TCA PROVIDERS

As with any evaluation, data quality continues to drive the most successful analyses. Issues tied to the breadth of analysis, as along with data inconsistencies, have led surveyed participants to take their time dipping toes into the fixed income TCA waters or turning to in-house customized solutions for classes of instruments such as municipal bonds, mortgage-backed securities, and more exotic derivatives.

As Figure 10 shows, cost and analytical tools have also risen to the top of the list of requirements for using third-party providers. Several respondents commented that the "cost of performing TCA is not worth the outcome" and "we're just not there yet" in terms of any resulting actionable information. These comments suggest that fixed income TCA is really just a report card for keeping dealers honest and watching over trader activity rather than any sort of a deep analytical process designed to unearth trends and influence decision-making.

Figure 10: Factors Driving Third-Party Solution Provider Choice



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

While there are still cost analysis hurdles to get over, the use and application of TCA has continued to evolve with time. The oldest surveyed users of TCA analytics (users for more than 10 years) indicate they've been applying cost analysis to their bond ETF and ETD investments. Meanwhile, the majority of TCA analysis occurred in the three-to-five-year category and is concentrated in credit and rates (Figure 11).

More recently, within the last two years, TCA has been spread across a greater number of fixed income instruments. There is a more even distribution of cost analysis, particularly outside rates and credit, which includes ETFs, ETDs, and OTC rates and credit derivatives. The line in the chart highlights the average length of time surveyed participants indicate they've used TCA across each instrument type.

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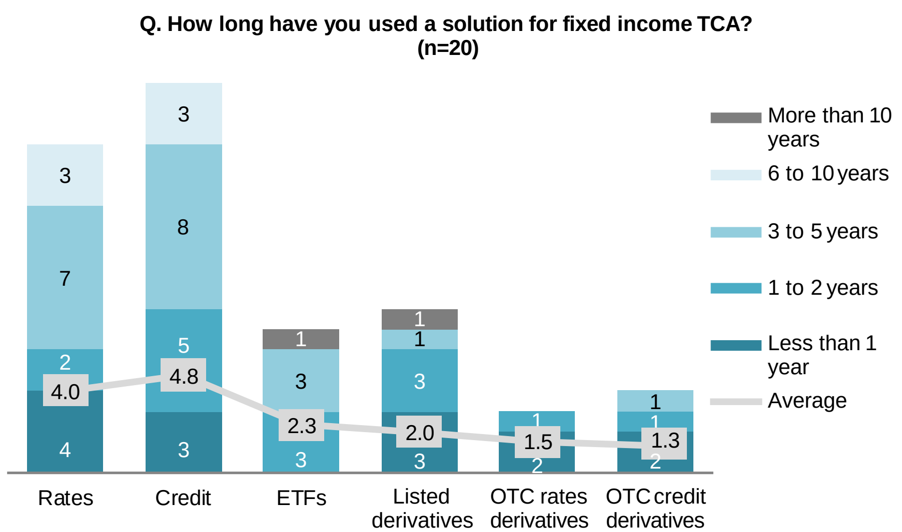
Possible explanations for the uptick in TCA use across more products can be linked to advancements in solutions, but it's more likely the result of demand from clients. While it's true investment has poured into the TCA vendor space and more competition and breadth of product has resulted, client demand for greater transparency has tipped the discussion in favor of employing TCA solutions. This type of discussion has been happening in equities for decades and is finally catching up in fixed income. Thus, vendor technology must advance in lockstep to stay competitive and meet client needs.

Figure 11: Longevity of Fixed Income TCA Solutions Use



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THE BENEFITS TCA HAS DELIVERED (OR NOT)

While the benefits of cost analysis have been well-documented, particularly in the equity asset class (where the greatest strides have been made given the breadth and granularity of data), important reasons for turning to fixed income TCA exist despite analytical limitations.

There are naysayers, however. Several participants have suggested fixed income TCA has no impact even though they use it! One survey participant noted that because spreads are so wide in some fixed income instruments, it's often difficult to tell how TCA can improve cost efficiency on the basis of simply knowing where something trades versus the willingness to transact at that level. This participant suggests that knowing how a firm might overpay relative to peers is likely a more constructive use of a TCA solution.

Firm culture may play a role in the resistance to using TCA. For example, subject-matter experts Aite Group spoke with mention pushback when suggesting trader performance evaluation metrics, as it's far easier to get dealer performance statistics across the line. Additionally, there are some buy-side firms that still discuss fixed income investment results with clients in more traditional ways—by having a trader talk about market trends rather than hard statistics used in other asset classes.

The majority of surveyed participants using fixed income TCA solutions do so to measure trade impact, evaluate traders, and compare dealer performance (Figure 12). Using TCA statistics for internal performance is also quite common, particularly when used as part of the research feedback loop. This is unsurprising given the trend toward achieving best execution as a firm-wide process that emphases communication and collaboration, as described in Aite Group's report *Best Execution, Fragmentation, and Data: Fixed Income's Cerberus*.[7]

7. See Aite Group's report *Best Execution, Fragmentation, and Data: Fixed Income's Cerberus*, July 2018.

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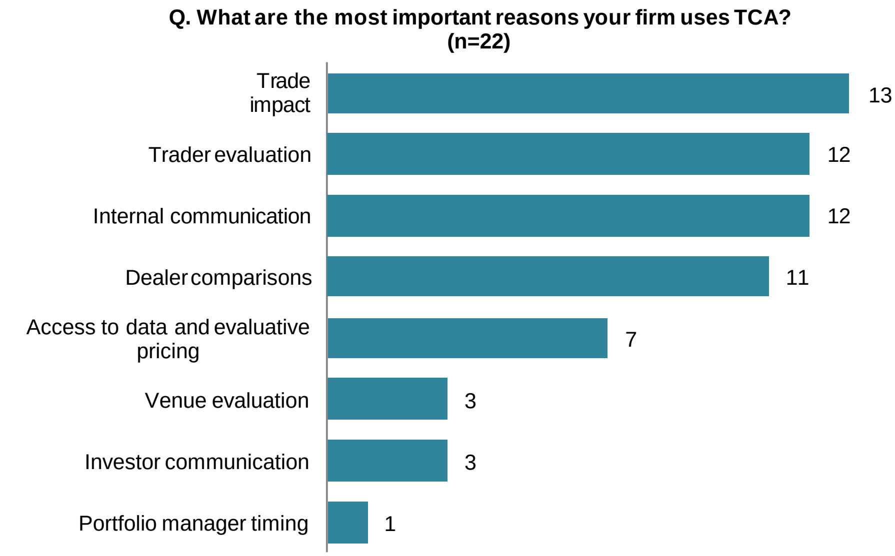
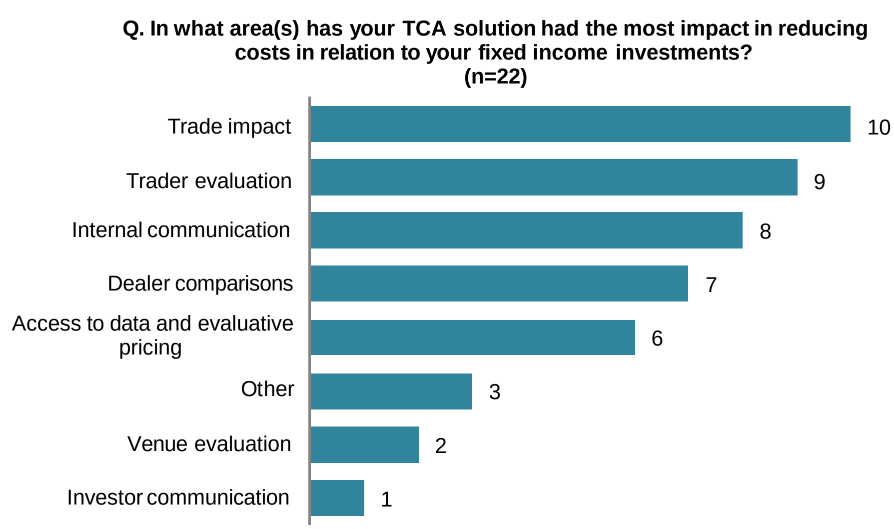
Figure 12: Most Important TCA Use Cases



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

The measurement of trade impact, dealer comparisons, and trader evaluation are the most effective uses for fixed income TCA when it comes to reducing cost (Figure 13). While it may be difficult to measure cost efficiencies gained by internal communication, collaboration, consistency, and the reduction of duplicative efforts are standout reasons to adopt a best execution process and TCA. Still, three participants selected "other" and maintain that fixed income TCA has no impact.

Figure 13: Cost Reduction Achieved Using Fixed Income TCA



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

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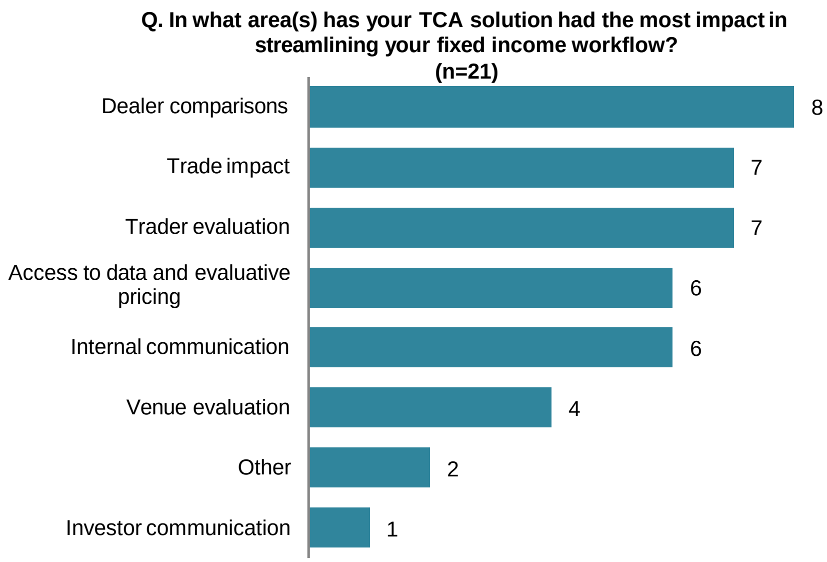
When it comes to streamlining workflows using fixed income TCA data, survey participants again point to dealer comparisons, trade impact, trader evaluation, and internal communication as the areas most affected. In Figure 14, access to data and evaluative pricing comes up behind the more typical TCA use cases. Given the cost of data and limited access to high-quality information, this is not surprising. Several TCA providers offer data and evaluative pricing in addition to performing analysis on a given set of client positions. Looking forward, Aite Group believes the integration of data will become one of the most meaningful elements in TCA in addition to superior analytics. (Note that "other" refers to no impact.)

Figure 14: The Degree of Streamlining Workflow Achieved Using Fixed Income TCA



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WHAT COULD COMPEL MORE FIRMS TO INVEST?

Discussions about the improvement of fixed income TCA solutions continue to center around data. Surveyed participants often point to insufficient data as the biggest stumbling block when it comes to justifying the use of TCA beyond the basic applications. As time elapses, the accuracy of benchmarks will improve as feedback loops improve. This progression is already in motion; however, without the existence of a central tape, similar to equities, investors will continue to rely on evaluative pricing and piecemeal observable data.

Although no one really wants to hear it, just because data is available doesn't mean firms will choose to use it. The nuclear option—forcing market participants into developing TCA statistics—might have to come from regulation, similar to what's happening in Europe under MiFID II. However, the better path is to create a culture of best-execution practices and, at the bare minimum, track dealer performance, trader performance, and market impact. The industry also needs to develop best practices and a common framework that will allow investors to compare cost analysis across asset managers. Education is also a must. As more clients demand TCA statistics, more firms will provide them.

Figure 15 highlights the importance of data and the need for accurate benchmarks, which are interconnected concepts. Although the accuracy of time stamps is ranked third, much of the fixed income asset class trades slowly, and this element is not as imperative as it is in the equities world. Surveyed participants are looking for improvements in these areas to gain access to more actionable data that drives investment decisions.

While conceptually TCA output can flow downstream, this is usually not the case. Business intelligence analytics are often part of a separate process using TCA output as an input. To the degree that TCA output can be used throughout the ecosystem of a firm more readily, cost efficiencies and a culture of best execution will be more easily achieved.

Figure 15: Respondents' Areas of Improvement for TCA

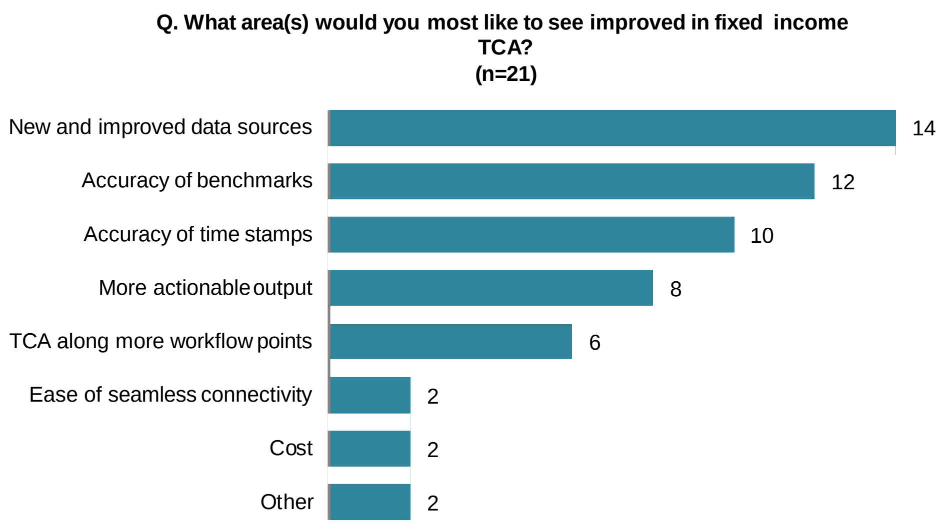

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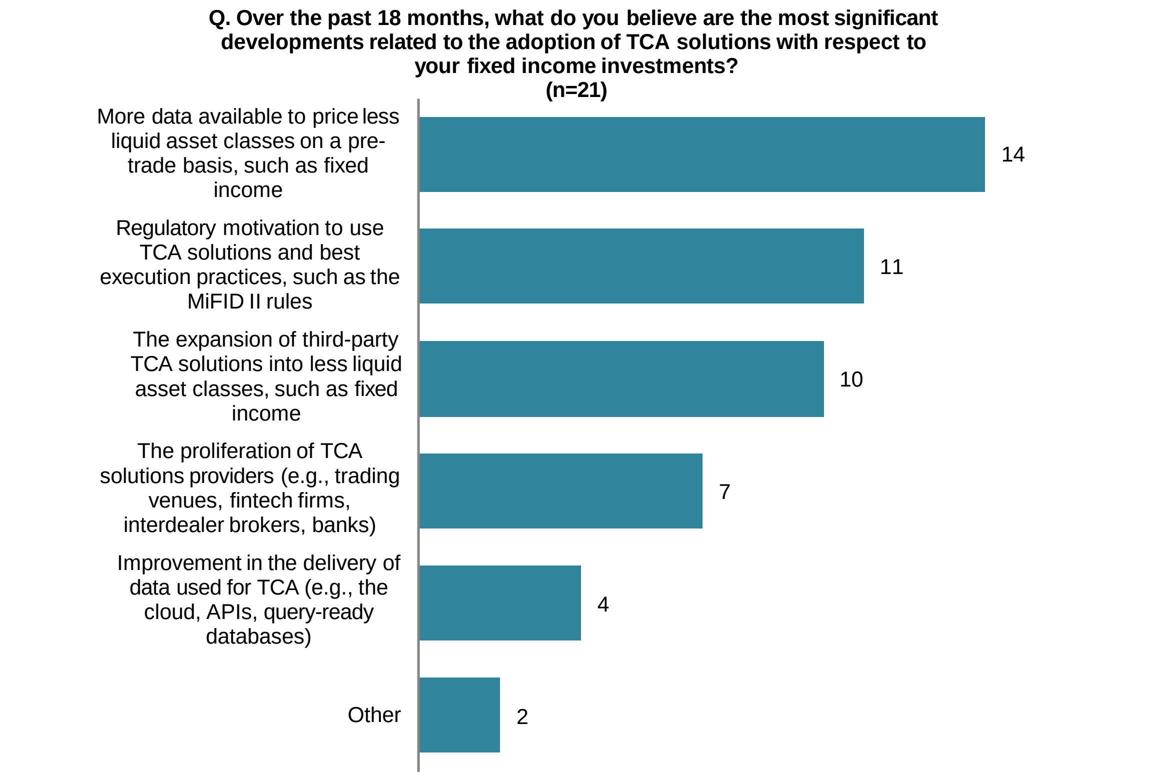
Figure 16 summarizes fixed income TCA developments taking place over the last 18 months. Participants shed light on some changes that have positively affected the space and might provide clues as to where future improvements need to happen. Clearly, making more data available and including pricing for less liquid asset classes has helped expand the set of instruments that can be measured on the basis of cost. Still, two survey participants selected "other" and commented that no impactful developments had taken place during this time. As mentioned earlier, regulations may have to be the motivator that forces buy-side institutions to get going with their TCA practices, as company cultures are difficult to change.

Figure 16: Perceptions on Most Significant Developments Affecting TCA Adoption



Source: Aite Group and Institutional Investor's survey of 105 buy-side fixed income managers, September to October 2018

When asked to look ahead to the next 12 months, survey participants indicate that they are expecting more solutions to develop outside rates and credit as the need to analyze esoteric instruments increases. While data availability and quality remain an issue, connecting data sources is also an area that warrants improvement (Figure 17). Making it difficult to get TCA data to perform cost analysis is only going to set the adoption process back further.

Although there has been a proliferation of TCA providers—particularly of nontraditional players—buy-side firms believe there is concentration in this space as the need for more innovation and better solutions grows. One participant commented that data accuracy "is key" and "we're just not there." Another pointed to the need for "bespoke, actionable pricing."

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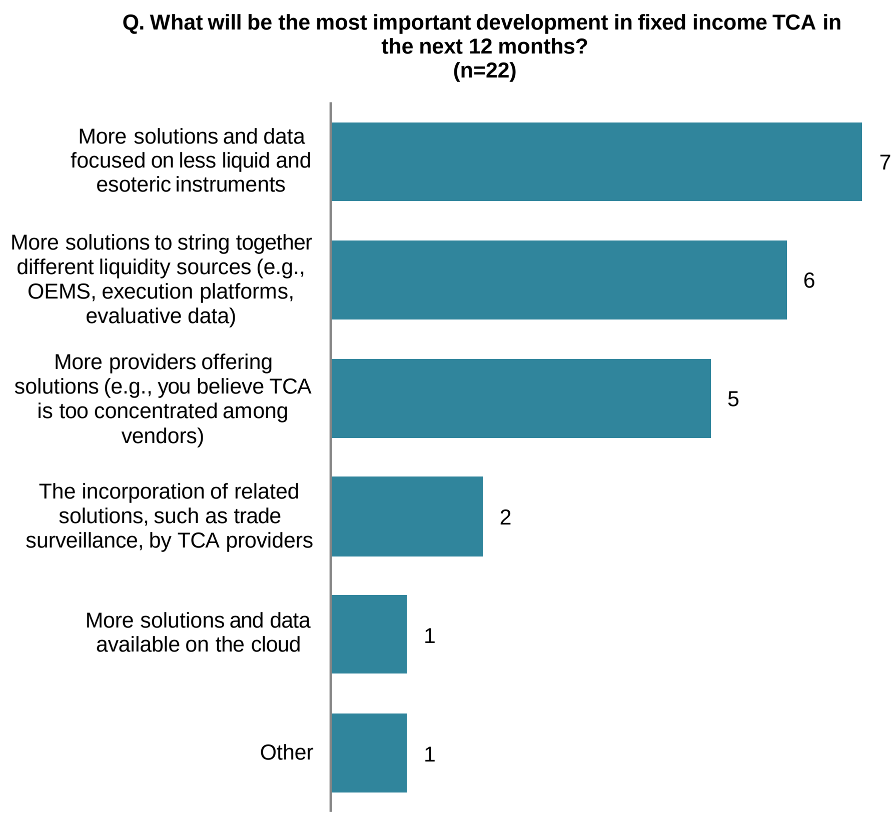
Specialization in fixed income TCA, or more broadly fixed income data, is a niche that has yet to be filled.

Figure 17: What the Industry Can Expect in the Next 12 Months



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CONCLUSION

Buy-side firms:

- **Fixed income TCA is specialized—choose your solution accordingly.** While several TCA vendors offer solutions across asset classes, fitting the fixed income peg in the equity hole makes no sense given the differences between asset classes and enormous gaps in reliable fixed income data. A best-of-breed TCA patchwork solution may be the most practical given the complexity of many buy-side portfolios.
- **Naysayers be damned.** The majority of respondents (73%) indicated they are not using TCA in relation to their fixed income portfolios. While there are certainly challenges associated with data, evaluative pricing, and transparency, these firms can still benefit from tracking the most basic elements of TCA: trade impact and trader evaluation for the purpose of cost reduction and improved workflow efficiency.
- **Fixed income TCA is evolving beyond rates and credit.** Survey findings revealed several managers are dedicating a larger percentage of TCA total spend toward an array of fixed income instruments in addition to rates and credit, including bond ETFs, fixed income futures and options, IRS, and CDS. As portfolios expand to include these instruments, the use of cost analysis should happen in lockstep.

TCA vendors:

- **Educate buy-side firms around the benefits of TCA—then make sure their clients know too.** Survey results indicate several buy-side firms invest in a wide array of fixed income instruments and only apply TCA to rates and credit transactions. The shift toward more analysis in other areas of fixed income is necessary to stay in tune with ever-changing investor preferences, especially for increased transparency.
- **Work toward the development of standardized practices with clients.** While the industry has come a long way in terms of guaranteeing best execution on behalf of the client is met, a set of standardized TCA practices is still lacking. The development of such practices should help turn some naysayers into adopters of fixed income TCA analytics.
- **Understand what matters most.** Surveyed firms point to data, the breadth of coverage, and the analytical tool suite as top-of-mind when choosing a third-party TCA solution. When it comes to reducing cost and streamlining workflow, access to data and evaluative pricing are a top consideration. Aite Group expects data access to become one of the most important elements.

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