

Successful Development of a Secondary Government Securities Market

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our members

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E-TRADING SOLUTIONS FOR A GLOBAL FINANCIAL MARKET

Elements of a Successful Market:

Policy Makers

- Transparent, liquid marketplace with real-time execution

Central Banks

- Interest rate determination across entire yield curve.

Debt managers

- Participation in Governance and real-time monitoring of market conditions plus the ability to auction on the same platform.

Regulators

- Real-time audit; Time/Price priority: Participants choose preferred settlement and clearing regime.

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Elements of a Successful Market:

Participants .

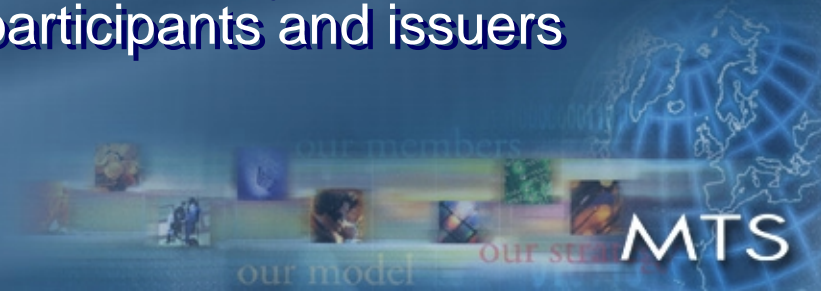
- Dealers participate in market governance.
- Low transaction costs reduce trading expenses
- Single platform for all markets.
- Dealers can deploy internal software tools to allow auto-quoting across all markets using open API.
- Real time connectivity to back office systems; automated settlement reduces chance of fails.

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The MTS Business Model

A single trading platform with local market governance meets the needs of issuers and market participants.

- **Governance** –Broad shareholding by all relevant market participants. Market issuers and regulators are directly involved in the governance and supervision
- **Market Organisation** - Objective product listing and membership criteria; Market Makers continuously quote two-way prices, ensures consistent and superior liquidity for all securities listed.
- **Transparency** - MTS provides dissemination of real time information to participants and investors, activity reports of members and securities turnover to participants and issuers



The Impact of Each Component

- **Explicit quote-driven** Ensures reasonable bid-offers over a continuous time
- **“First movers”** e.g. Cash/futures entered e-trading arena first so higher familiarity & liquidity
- **Government Markets** Though other issuers are increasingly realizing the importance of a liquid secondary market. In general, more complex products are less transparent
- **Wide participation** Accessibility to all participants provides price formation (usually not in B2C)
- **“Click & Trade”** Natural trend for fast trading; ideal in high liquid/transparent markets
- **Regulated markets** More ‘knowns’ : data stats, rules, participants, enforced supervision etc.
- **Trading Anonymity** Ensures trading environment is driven by best market price rather than by market movers



Benefits of an Electronic Market

As seen through the MTS model

- Removal of physical boundaries allows for a deeper pool of liquidity and broader geographic penetration
- Active Cash, Repo and Strip markets
- Continuous price discovery of all eligible securities
- Market structure tailored to complement the local market practices
- Auto-quoting software allows traders to show two-way prices in an almost unlimited number of securities
- Back-office linked through API; increases efficiency, lowers transaction costs

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Dutch Treasury Certificates on MTS Amsterdam: Case History

- Cooperative effort between MTS Amsterdam and Dutch Treasury to further enhance liquidity and transparency of DTC secondary market
- Treasury Certificate segment of MTS Amsterdam live from March 2001
- Creates a liquid, two-sided market in all DTCs issued
- Average turnover €225 million per day
- Record daily total volume €730 million
- 20 Market Makers active in a total of 6 DTCs outstanding (ranging in maturity from 0 to 12 months)

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Quote Driven

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Auction-based

- Targets wholesale sector
- *e.g. MTS Markets*
- Broad involvement of market participants
- Active inter-day trading
- Continuous pricing of yield curve
- Source of liquidity for dealers

- Targets Retail sector
- *e.g. Bondvision*
- Easy accessibility for investors
- Allows for large trades on a single ticket
- Allows for non-standard trades

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Bondvision:

*the MTS approach to
Electronic Call Auction Markets*

- Leveraging the existing technology infrastructure in order to further reduce costs
- Adapting, not disrupting, the current structure of the market place to an electronic trading environment
- Setting objective participation criteria for dealers, linked to their status in the secondary market.
- Adopting a corporate structure subject to a robust regulatory framework; guarantees a fair e-market place for institutional investors



Ultimate Goal

Deliver the benefits of an electronic marketplace while working with both Issuers and Participants to create a Fixed Income Market of unparalleled liquidity

