

## **Infrastructure in the Danish government securities market in 2012**

### **Evaluation of the infrastructure in the Danish government securities market**

The annual evaluation of the infrastructure in the primary and secondary market for Danish government securities takes place at the Primary Dealer meeting in the fall. Prior to this meeting, a sub-committee is responsible for preparing a written evaluation along with recommendations regarding choice of trading platform(s). The following is the conclusions of the report discussed at the primary dealer meeting in November 2011 concerning the choice of trading platform(s) for Danish government securities in 2012.

### **Evaluation of the current platform, MTS Denmark**

MTS Denmark is considered a well-functioning platform for the primary as well as the secondary market in Danish government securities. The governance structure, the service level and the current fees are satisfactory. Specifically, MTS Denmark is receptive to inputs from the primary dealers and willing to adapt the setup accordingly.

### **Market making in the secondary market**

The merits of the current setup have been assessed relative to increasing the number of platforms. When assessing this setup the moderate size of the market must be taken into consideration.

Currently, the market making in Danish government securities takes place on the interdealer platform MTS Denmark, where all primary dealers carry out trading. Also, a price-quoting system exists on Nasdaq OMX Copenhagen, where 5 Danish banks have price-quoting obligations. The system is open, so that other banks may participate as well. Trading also takes place on the interdealer platform BrokerTec as well as platforms like TradeWeb and BondVision that are primarily aimed at end-investors.

Increased competition between platform providers could result in lower transaction costs as well as improvements in platform functionality. However, if not all primary dealers are present on a given platform liquidity could be reduced as well as pre-trade price transparency. This consideration

is especially pertinent for the Danish market given the limited volumes traded. Also, implementation costs of connecting new platforms to primary dealers' existing IT infrastructure and the fixed yearly costs of operating multiple platforms are estimated to be significant. If market making were performed on additional platforms it could result in some primary dealers opting out. Finally, clients accessing market information via Bloomberg or Reuters would have to pay to receive information from several platforms.

***Conclusion***

Based on the above arguments primary dealers agreed on having one platform with mandatory market making in 2012. Furthermore, given its current performance MTS Denmark was chosen as the market making platform for the Danish wholesale government securities market in 2012. The chosen platform must be evaluated thoroughly on a yearly basis.

It must be noted that the chosen platform for market making is not sheltered from competition. At the annual evaluation of the current platform primary dealers may replace the current platform if it does not deliver a competitive offering relative to other platform vendors.