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Top Market Structure Trends to Watch in 2022

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There has been chatter about **Big Tech buying its way into markets** for years, and that time may have finally arrived

The **SEC's agenda for 2022** is so long and impactful that everyone in nearly every market should keep a close eye on what comes next

While businesses tried to get back to business in 2021, the year was far from normal. In fact, it seems unlikely that normal will ever be uttered again about global markets. But maybe that's a good thing. Bold bets on bold innovations permeated almost every conversation in 2021, and there is nothing that leads us to believe 2022 will be any different. While inflation, supply chain issues, regulations, the pandemic, and central banks' rate-raising plans will certainly be big drivers of global markets for the foreseeable future, the following set of 10 diverse market structure and technology trends will be on our radar as they reshape the industry in 2022.

1 The Tokenization of Everything

While institutional trading of cryptocurrencies and other native digital assets is nothing short of inevitable at this point, we see a continued focus on bringing an increasingly long list of existing assets "on chain." No one can digitize a house, but digitizing a house's record of ownership is now easy, which will lead to an easier buying and selling process. Bring this idea to capital markets and the old notions that illiquid and institutional-only assets can't be traded electronically by virtually anyone go out the window.

Private securities are already acting as a great use case here. The market is now home to thousands of unicorns (those valued at over $1 billion), many of which traditional institutional and retail investors would love to invest in early, but often cannot. By creating a transparent mechanism for recording ownership and trading that ownership freely, tokenization can open up this market and hundreds of others to a much wider investor base. And once these assets are digitized, post-trade processes will also improve, helping to further reduce risk and lower costs. That assumes, of course, that investors trust these assets and the blockchains upon which they reside, and regulators bless the ideas (or stay out of the way)—none of which is guaranteed just yet.

2 Even More Market Transparency

More market transparency is coming. The global financial crisis of 2008–2009 resulted in a laundry list of global rules that made capital markets more transparent than ever before. With more than a decade now past, access to market information has improved dramatically via regulations as well as new technology, which has helped to both generate new insights via advanced analytics and democratize access to data via cloud computing at increasingly affordable prices.

Nevertheless, the more investors get, the more they want. Regulators in the United States and Europe are pushing for the next round of increased market transparency through new regulatory proposals and the threat of additional regulations, which is encouraging the industry to act first. Examples are numerous. Better environmental, social and governance (ESG) reporting standards and required disclosures are seen as critical in helping the market segment move ahead and reducing "greenwashing." The European Union is pushing forward to create a consolidated audit trail for European securities markets, picking up where MiFID II left off. And U.S. regulators are increasingly focused on enhancing trade-reporting rules for U.S. bond markets. Exactly what these new rules look like remains unclear, but more transparent markets are a given.

3 Market Data Gets Interesting Again

The market structure of market data is set to evolve quickly in the coming year, with the U.S. Investors Exchange (IEX) and Pyth Network as prime examples.

IEX has announced they will start charging for their market data in 2022. As with most newer exchanges (and especially those that started life as alternative trading systems (ATSs)), IEX historically did not charge for their market data. IEX has also been a harsh critic of the pricing and methodology of the incumbent exchanges. One interesting differential is that IEX considers anything beyond 15 milliseconds "delayed" and, therefore, not fee liable, as opposed to the standard 15 minutes of the SIP and other exchanges. But the fact that IEX is charging at all is big news.

Unique decentralized finance (DeFi) challengers to the primacy of the traditional market-data providers are also poised to gain traction, the most significant of which is the Pyth Network. Pyth is a network that collects and publishes continuous real-time market data across assets "on chain" in a sub-second timescale. Contributors to Pyth include crypto firms, high-frequency trading firms, as well as MEMX and IEX. Although not necessarily a new world order, taken alongside a contentious debate regarding the governance of U.S. equity consolidated feeds (the SIP), this development can't be ignored.

4 More Blockbuster (and Perhaps Unconventional) M&A

Fascinating and unlikely firm combinations are coming in 2022. Financial services consolidation isn't a new trend. Banks will continue to buy banks. Asset managers will continue to buy asset managers. Exchanges and trading venues will buy each other to become more multi-asset. And fintech firms will continue to buy each other in search of scale and technology synergies. But all signs point to more unique investments, mergers and acquisitions heading in 2022.

For instance, CME's plan to move further into the cloud was certainly notable. But it was even more notable that Google made an investment in CME. There has been chatter about Big Tech buying its way into markets for years, and that time may have finally arrived. Furthermore, in addition to traditional financial (TradFi) firms buying into the digital asset ecosystem, we will see crypto-focused firms using their sky-high valuations to buy TradFi firms—the proverbial tail wagging the dog. 2022 will force us to stop thinking only about which big exchange or broker will buy Coinbase or FTX and instead wonder what TradFi firms Coinbase or FTX might buy.

5 The SEC

Regulators aren't usually a trend in their own right, but in 2022, the SEC most certainly is. The agenda of SEC Chair Gary Gensler's administration is so long and so impactful that everyone in nearly every market should keep a close eye on what is proposed. We foresee an endless string of (hopefully in-person) meetings and roundtables to gather industry feedback to proposed rules that could, in some cases, upend long-held industry practices.

There isn't enough room here to explain the potential ramifications of what the SEC might put into action, but here are just a few of the highlights: cryptocurrencies, stablecoins, payment for order flow, ESG standards, nonbank-liquidity-provider registration, fixed-income trading venue oversight, U.S. Treasury clearing, securities-based swaps regulation, and enhanced bond market reporting. Is that enough for one year?

6 Best-of-Breed Comes into Its Own

Process automation is high on nearly everyone's priority list for 2022. But since no one works with a single technology provider anymore, more automation requires disparate systems communicating with one another without months of development. Admittedly, this trend is more in the technology weeds than the others on this list, but this type of technology plumbing is what will allow many of the others to come to fruition.

Remember when FIX was created in 1992? It was an incredible development that allowed institutional traders and broker-dealers to communicate with each other regardless of the trading system each firm used. We need more of that. Tech providers today increasingly focus on providing everything "as a service," which is a great step toward easy integration and a best-of-breed approach. But until those APIs take a standard approach, programmers and custom development are still needed almost every time. A lot of work has been done by the industry over the past few years to create this standard. In 2022, we hope and expect broader adoption of these new interoperability mechanisms (i.e., FDC3) to increasingly take hold.

7 Startups on the Heels of Incumbents

A big wave of consolidation hit institutional fintech over the past five years. State Street bought Charles River. FactSet bought Portware. Ion bought Fidessa. And more recently, Broadridge bought Itiviti. While these and many other combinations created new powerhouses with scale and uniquely diversified product offerings, they also drove the creation of hundreds of startups that saw an opportunity to build new technology on what they hoped would prove to be a more nimble platform.

Fast forward to today and many of these startups are long out of stealth mode. After spending two years locked up in their home offices writing code and having now secured new anchor clients that will only help them further build out their offerings, they have hopes of taking on the most well-known names in the space. This trend is particularly evident among order/execution/portfolio management systems, AI-driven analytics and, more recently, market infrastructure (i.e., settlement). It's worth stating that incumbents in these and other segments are incumbents for a reason—the solutions work and have stood the test of time. But hungry company founders backed by even hungrier private equity investors see the industry's rediscovered willingness to try new things, and they're doing everything possible to capitalize.

8 An Upgraded Workforce

Job upgrades, both for individuals and firms, are set to continue. If you've spent any time on LinkedIn in the past few months, it is impossible not to notice the incredible level of job changes happening across the industry. There is no question that the pandemic caused a lot of people to rethink their lives and careers. As a result, many are now turning those thoughts into actions and taking on new jobs—whether to gain a more flexible work-life balance for the long term or to finally move into an area or role to which they've always aspired.

At the same time, nearly every firm has reexamined at least parts of their business for this new world we live in, and are now looking for talent to execute on that strategy. Crypto-focused firms and new fintechs get a lot of the attention for attracting industry professionals out of TradFi jobs, but banks and asset managers continue to attract top talent as they reshape their businesses for this increasingly digital world. This is one disruption that will be good for everyone, once the chips all land on the table.

9 Retail Investors Get Institutional Investor Treatment

Retail investors are getting a technology upgrade. It's often said that Wall Street has an advantage over Main Street, with its high-speed trading algorithms and incredible access to data. But one could argue now that retail investors are increasingly getting the institutional treatment via new technology and solutions aimed at giving them better access to investing strategies, securities prices and markets more broadly.

Online trading via your phone was until recently seen as "cool" and "nice to have," but not particularly practical. Today, it is the only way many people trade and manage their investments. Mobile applications even offer several forms of automation, including automatic portfolio rebalancing and sophisticated order types that are quite nearly execution algos. Add on new investing tools, such as direct indexing and factor ETFs, and the result is a well-equipped retail investor.

It's worth noting that the SEC is closely monitoring retail disclosure requirements and thinking about what is "suitable" for the average investor. This examination could slow down retail investing innovation in the interest of safety. Nevertheless, whether because of or in spite of incremental improvements in retail market structure (i.e., NBBO calculation changes, 605/606/PFOF disclosure), the retail investor has never had it better.

10 Prime Brokerage Looks Forward

2021 was a rough year for the prime brokerage business, but 2022 will offer opportunities for rebirth. While the Archegos Capital Management explosion taught some very expensive lessons, those that came out of the mess unscathed are well positioned to expand. For instance, prime brokers have huge influence on which technology and services new hedge funds adopt, including order- and portfolio-management systems (OMSs/PMSs), outsourced trading, and outsourced back-office operations. Those that give good advice will grow alongside their clients. Further, the rise of crypto and digital asset trading/investing presents opportunities to expand into new business lines, as the industry gains more regulatory clarity and prime brokers feel comfortable with these new risks that they will ultimately help manage.

To capitalize, prime brokers will need to invest even more than they have in the past on technology and the processes for managing the provision of credit and use of the balance sheet. This will mean a bigger focus on truly real-time risk management technology to catch the next Archegos before it happens.

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