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SEFs – nothing short of technology marvels

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Its true. If you step back and think about it for a minute, the work carried out over the past four years to create an electronic swaps metia-logomarket almost from scratch is pretty amazing. PR Metia just released their FinTech Insight 2014 report which includes commentary from industry analysts on all things financial technology – and I was fortunate enough to be included. My short analysis focused on the amazing progress that's been made in the swaps e-trading space in the past year, and the additional progress that is inevitable in 2014. The full report can be downloaded here. My contribution:

The Year of the SEF

2013 will forever be known as the year of mandatory clearing. Once ignored as boring back-office stuff, all things clearing were front and center as swaps went from a ten day to a ten second clearing cycle – literally. Buy side, sell side, affirmation platforms, clearing houses and swap data repositories all played a part in making this huge transformation happen. Not only was an entire market infrastructure built from scratch, but the technologists at the wheel faced immeasurable scope creep created by constant regulator driven changes. Despite these challenges, all of the hard work paid off with swaps clearing quickly approaching 'business as usual' status.

Despite these great successes, liquidity in the fixed income market is a bit of a mess. Dealers aren't committing capital in the corporate bond market. Bond market trading platforms keep popping up to compensate for the dealer pull back. The US Treasury market is hugely distorted by the Fed's constant bond buying. And last but certainly not least, the interest rate and credit default swap markets are in a major state of transition with the forthcoming 2014 implementation of mandatory SEF trading.

This has all proven quite a pain for investors and dealers. However, such market upheaval creates a once in a lifetime opportunity for technology innovation.

To that end, the innovation in 2014 will come from SEFs. While SEF trading was expected as far back as 2011, three years later the time has finally arrived. The delay means we've gone from more than a dozen startups to three and established platforms have had to transform themselves. What's left is a group of liquidity venues that will create for the first time ever an active electronic swaps market. If we consider the complexity of the products, annual turnover in the hundreds of trillions and regulatory complexity like no one has ever seen – the SEFs that will be there on day one are nothing short of technology marvels.

The result is a blank canvas for traders and technologists to devise business models, trading strategies and new analytics to benefit from the electronification of the swaps market.

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