

RPT-Fintech makeover for bond syndicate

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HONG KONG, Dec 4 (IFR) - For all the promise of fintech, the debt capital markets have so far proven a tough nut to crack.

Last week, a handful of investors in Asia got a first glimpse at a new firm taking up the challenge with the launch of a Singapore-based startup founded by three former Deutsche Bank executives.

Covalent Capital's OMAS is a marketplace for issuers, dealers and investors in the primary debt capital markets, specifically, to begin with, the G3 and Singapore dollar bond markets.

It aims to simplify processes for bookbuilding and communicating orders by providing a centralised platform for banks to interact with the buyside.

The platform launched its trial last week with a small group of investors. The company plans to add more investors and banks in the next few months.

Sanjay Garodia, co-founder and CEO of Covalent, said he got the idea during his time as head of Asian credit trading at Deutsche when he observed how cumbersome primary issuance could be.

He founded the firm with former Deutsche Bank alumni Mayur Ghelani and Tsu Jung Ho.

While OMAS does not look like a disruptive application of new technology, it has, nonetheless, the potential to change the way bond deals in Asia are marketed and distributed.

“The idea is to create a one-stop solution for everything around new issues,” said Garodia.

“By providing a single platform, there’s no need for duplication during bookbuilding. This frees up banks to spend more time on value-added tasks and also reduces the risk of error.”

According to a report from Boston Consulting Group, out of roughly US\$97bn in venture capital that has poured into fintech since it started tracking data in 2000, only US\$4bn has gone into companies engaged in the capital markets.

Of the US\$4bn, an even smaller fraction has gone into startups focused on the primary debt capital markets.

Covalent is currently funded by its founders.

While the reduction of banks’ balance-sheet commitments to the secondary bond markets has led to a number of new trading platforms, only a handful of companies so far have made inroads in the primary markets.

Historically, banks have also been able to justify their high fees by controlling the information flow between investors and issuers and, as such, are reluctant to accept outsiders they view as a potential threat to their role.

Duncan Phillips, global head of capital markets at Ipreo, a US-headquartered financial services technology provider, argues that centralised bond market platforms will help streamline the bookbuilding process.

“Investors are bombarded with message after message providing deal terms and transaction updates,” he said.

“If there are five bookrunners on a deal and six messages through the course of the day, the investor gets 30 messages. On a day with lots of deals, it can be hundreds of messages.”

“When it comes to orders, it’s a similar situation. The investor conveys the order to multiple salespeople, who then convey the order to their syndicate... It’s an iterative process that’s a little old.”

In January, Ipreo launched in Europe Investor Access, a primary markets platform that allows banks and investors to communicate deal terms, and submit orders and allocations.

In July, Ipreo completed its first deal in Asia through the platform, a five-year Reg S US dollar issue for South Korea's NongHyup Bank.

Ipreo has already signed up more than 100 investors and 27 banks to Investor Access. Over 70 deals have been published in Asia using the platform.

However, Phillips does not think the platform will rival banks.

"Banks are fundamental to our business and, so, we partner with them as we develop Investor Access," he said. "I think of this as positive evolution – industry incumbents working with solutions providers."

Still, just as the electronification of trading started as an efficiency improvement and spawned the rise of algorithmic trading, it is the derivative of these processes that may pose the greatest threat to banks.

Covalent is building tools that use machine learning to help decision-making for both banks and the buyside. Investors' use of these tools could, theoretically, reduce their dependence on banks for price discovery.

The major risk for startups like Covalent, though, is that the banks may club together and develop their own bookbuilding software, although Garodia thinks that is unlikely.

"Whenever there is a standardised product and liquidity is the main factor, banks will be successful," he said "But anywhere you need a marketplace, I don't think banks typically would want to use each other's products."

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