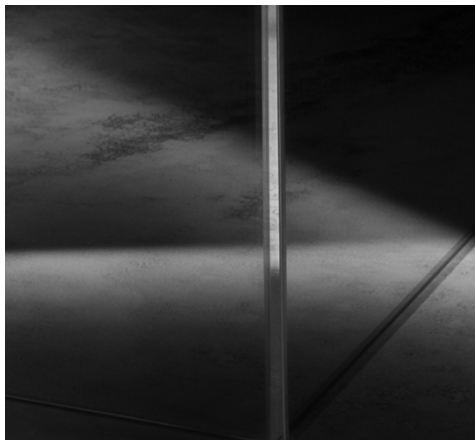




interview

MOTIVE ——— INSIGHTS



We are thrilled to dive deeper into capital markets in an exclusive interview with our colleagues **Blythe Masters**, Industry Partner at Motive Partners and CEO and board member of Motive Capital Corp (NYSE: MOTV.U) and **Swathi Vankayalapati**, Associate at Motive Partners. We have included condensed and edited excerpts from our conversation.

Motive: How do you view the current capital markets landscape and where are the opportunities?

Blythe: Capital markets growth, while boisterous in the 90's and early 2000's, slowed to mid-single digits over the decade following the global financial crisis. Since then, there has been relentless margin pressure due to rising regulatory capital requirements, curbs on leverage and profitable activities such as those prohibited by the Volker Rule, structurally low interest rates and rising compliance and technology costs. While this has been challenging for capital markets participants, it has created a wealth of opportunity for capital markets FinTech vendors who serve them. Firms are incentivised more than ever before to simplify their operational landscape, outsource capabilities where they lack a competitive advantage, and concentrate their vendor relationships among as few, strategically valuable providers as possible.

Nonetheless, the capital markets vendor landscape is surprisingly siloed and fragmented, and there are few businesses that legitimately can be described as "platforms", in the manner that big tech has brought to our vernacular. From pre-



trade pricing, ordering and analytics, to post-trade clearing and settlement, there is a complex web of interconnected vendors and customers across each part of the value chain, which perpetuates significant inefficiencies, error rates and cost burden. The opportunity for FinTechs in this space is to evolve beyond point solutions and offer one-stop-shopping and end-to-end solutions that leverage the efficiencies offered by next-generation technologies including cloud, machine learning and AI, DLT, and quantum-proof security features. Already the accelerating adoption of cloud, which enables new Software-as-a-Service business models, with the associated enhancements to operating leverage, holds great promise for the industry in the transition to “de-siloing” of data and platform creation. The most valuable solutions need to address complex multi-party processing across disparate data records that currently leads to an extraordinary burden of reconciliation requirements. Easier said than done.

Swathi: Distributed ledger technology (DLT) holds the promise of addressing reconciliation requirements, and as a result has become a strategic focus of middle and back-office processing in cap-

ital markets. The era of proofs-of-concept is over, and projects are now progressing towards implementation. For example, the Australian Securities Exchange (ASX) project to replace post-trade clearing and settlement capabilities in Australia and the Hong Kong Exchanges (HKEX) new settlement platform both offer the promise of streamlining and automating post-trade processes. Similarly, DTCC anticipates completion of a prototype development for the Project Ion settlement system in Q1 2021, a precursor to a shorter settlement cycle, signalling an increasing rate of DLT adoption. The reality is that these projects are merely scratching the surface of the opportunity that will unfold over the next decade.

Blythe: DLT also saw some exciting new applications in capital markets that are evolving beyond post-trade to pre- and at-trade, including consumer loan origination, financing and securitisation and native digital asset marketplaces (see, for example, Provenance.io). This is significant because demonstrating that DLT can streamline and reduce cost in financial product manufacturing opens a whole new arena for disruption that grows the addressable markets from the stock of existing assets to the flow of new ones.

Motive. How has COVID catalysed industry trends over the last twelve months?

Blythe: Most people will correctly point to the increase of pre-existing digital transformation trends that were accelerated by the Covid disruption. But there was a lot more going on in capital markets last year than just that. Capital markets firms were still implementing many of the regulations from the last global crisis including the transition away from various IBOR reference rates, which will be phased out in 2021. The pandemic put the industry on the back foot as it was forced to prioritise immediate risk management (volatility-driven) and operational (volume-driven) imperatives, and at the same time adapt to remote working. Ironically, this caused some innovative technology projects such as ASX's, which would have left the industry better prepared to cope with the events of 2020, to be slowed down. Meanwhile, the events of March 2020 also served to make it clear that the reforms put in place after 2008 addressed some systemic risks, but left others unaddressed, and may even have created others. The 'dash for cash', the need for unprecedented central bank



interventions, and all that this revealed about the fragility of the US Treasury and Treasury repo markets and open-ended mutual funds, to name just a few, is likely to prompt further market structure reform in the years to come.

Swathi: Two other developments that defined capital markets trends in 2020 were the retail stock trading explosion, and the emerging IPO market dominance of Special Purpose Acquisition Companies (SPACs).

Blythe: Agreed! The retail phenomenon has been criticised by some and lauded by others but has also fuelled a number of FinTechs serving the space. Mobile, gamified digital interfaces favoured by the new generation of investors clashing with old-world “norms” like T+2 settlement and resulting margin and capital requirements for clearing firms revealed the inconsistencies and rigidities of the capital markets infrastructure space. Again, watch this space, as reforms of market structure will be triggered. The “democratization” of investing has only just begun, and technology will fuel the growth of financial supermarkets that offer retail access to a whole raft of new

investment opportunities that were previously the domain of institutional capital.

Swathi: In 2020, 248 SPACs were introduced, four times the number raised in 2019. 2021 has seen this accelerate even further and SPACs now exceed traditional IPOs with thrice as many listings. SPACs had developed a reputation before 2020 of being an avenue for weak companies that would not otherwise have been able to be publicly listed. 2020 saw some questionable sponsors launching SPAC vehicles in pursuit of attractive economics, but it also saw a new institutionalisation of the product, which included Motive launching its own first SPAC, backed by forward purchase agreements from its own funds. Institutional investors like Motive offer companies seeking to go public committed capital, a strong long-term partnership, and established value-creation credentials. There will be an inevitable shakeout in the SPAC market, given that many SPAC sponsors lack credentials and valuation discipline, but the vehicle is a viable alternative to the burdens of a traditional IPO. As a financial product, it is here to stay unless the traditional IPO

becomes less burdensome. Large stock exchanges can expect to see a 40% drop in planned IPOs in 2025 which alludes to the complexity and inefficiency of the industry. Watch this space.

Blythe: Hear hear!

