Crisil
Coalition
Greenwich

E-markets: what's the real secret sauce?

December 15, 2014

The penetration of electronic trading across the financial markets is remarkably inconsistent. While equities and foreign exchange are largely traded over platforms, the same cannot be said for much of the fixed income market. Over-the-counter derivatives markets are also still largely voice traded, despite the pervasive influence of the Dodd-Frank Act.

There are good reasons for this. While the internet bubble of the late-1990s and early-2000s spawned a gaggle of electronic venues, especially in fixed income, many of these platforms were from the "build it and they will come" school of thinking. Some of those are no longer in business, but there are a number that survived, albeit almost without exception those that were able to partner with the major liquidity providers, the dealers.

At the turn of the millennium, only about 5% of humans had internet access; now it's nearly half of the world's population. As a result, it appears that the demographic influence of the internet on e-trading is largely played out, insufficient by itself to drive widespread and rapid adoption by the investment community across all asset classes.

What is really needed to enact change is enough liquidity to commoditize the trading of a marketplace. And in turn that requires product standardization. The evidence for this is clear in the equity and FX markets. In less standardized marketplaces, such as corporate bonds, the demand for electronic trading has developed at a much slower pace over the past 15 years.

While standardization of product is a pre-requisite to successful e-markets, it is not sufficient in and of itself, which is why OTC derivatives remained a hold-out for so many years.

Product standardization needs to be paired with regulatory fiat. Regulation has the power to drive standardization. In turn, this standardization increases transparency, which it is argued, creates more efficient markets. We'll address that argument another day, but few will disagree that price transparency is an essential component of most successful electronic markets.

With the increasing role of regulation in all marketplaces, growing product standardization is inevitable.

But the greatest momentum for electronification may yet come from an unexpected shift in the way markets trade or through increased innovation. With that comes a culture change…and that's not something that exchanges or regulators are well known for. Keep watching. The next few years will get really interesting.

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this

Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.