REBOUL & CO.

RESEARCH ABSTRACT

Is Corporate Lending Electronic Distribution looming on the horizon?

Unlike equities and to a lesser extent fixed income markets that have become "digitized", the corporate lending market has remained relatively bespoke and confidential without embracing electronic trading and digitization trends. We believe that, as other financial markets, **corporate lending will slowly move to electronification.** Term Loans B and Unitranches have been distributed in an electronic fashion for long now in the United States, but at the opposite end of the spectrum, Asia, a very intermediated market, has recently witnessed an **increase of non-bank lending (~10% in Asia vs. US ~75%). Thus, a fragmented landscape of electronic debt platforms** has emerged and structured around 3 dimensions:

- Functionality / Services (e.g. from origination to distribution for primary and secondary markets)
- Asset classes (e.g. corporate vanilla lending, structured commodity debt, short vs. long term)
- Client types / Geographies (e.g. Mid Caps vs. Large Caps, US vs. Asia vs. Europe)

Drivers of the emergence of these electronic debt platforms are threefold:

- **Revenues:** Gaining access to a larger pool of assets to distribute and providing higher liquidity
- **Costs:** Sharing and reducing distribution costs with improved underlying technologies bringing benefits to all participants (e.g. "non-proprietary" market and credit analytics)
- **Risks:** Increasing portfolio "rotation" and increasing business fees as induced by increasing regulatory capital pressure (e.g. Basel IV)

Yet several question marks remain:

- **Geographical specifics** and maturity of markets (cf. adoption in the US vs. Asia and Europe)
- **Threat of lower margins** (e.g. not enough volume on "vanilla" deals or potential cannibalization of pricey deals)
- **Leading technology to be embraced** (cf. Distributed Ledger Technology inroads / momentum in the US)

Regardless of the speed of convergence to a fully digitized corporate lending markets, we believe that a couple of markets are prone to become digitized: a few digits of a huge market (broadly syndicated loans, e.g. 3255 bUSD in the US) or a significant chunk of the fast growing emerging markets such as Private Credit (e.g. 174 bUSD in the US). We **believe institutional investors want to see loans converging with securities standards** in terms of price discovery mechanisms, best execution capabilities, and multilateral trading venues, but without the compliance hassle of publicly traded securities.

From a bank perspective, we believe a two-leg-strategy can be contemplated:

- Developing **Private Platforms to leverage their portfolio of clients at reach** (including internal clients). This path has been recently followed by some European Banks (e.g. Santander, Natixis, Credit Agricole)
- Co-developing with a few banking partners and / or **connecting to a growing collection of Public Platforms.**

Whatever the strategic choice **we expect technology players** (e.g. Ilex, VC Trade, Oceanis [shipping], Loan Ecosystem Online, NPL Markets) **to play a key role in accelerating time to market** of banks in this area. Key functionality of these platforms that position themselves as technology enablers as opposed to [regulated market dealers] include:

- A marketplace (e.g. public and private listings and enquiries)
- A data and analytics warehouse (e.g. loan books characteristics, investors / borrowers appetite, market prices, ESG data) connected to the corporate lending community (e.g. DebtDomain, IHS Markit, Refinitiv, S&P / Moody's, Symphony)
- A dealing platform (e.g. from "match making" to execution)

In this framework, Banks should then focus on a) designing agnostic connectivity, b) "piggy backing" the right set of accelerating features from these platforms, c) building complementary differentiating digital use cases on top.

Let's get in touch to start the adventure