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Bank dealmaking is being replaced by mundane collaborations

Patrick Jenkins

Financial services industry sees the benefits of sharing to smooth out problems and cut costs

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When David Gurle — a former Microsoft executive turned Silicon Valley entrepreneur — was approached by Goldman Sachs a couple of years ago, both parties shared a vision. Goldman and Perzo, Mr Gurle's start-up, had separately been developing instant messaging platforms and thought it might be wise to work together. By last month, the plan had evolved into a $66m acquisition of the start-up, renamed Symphony, by more than a dozen financial services groups, led by the US investment bank.
The small deal sparked big interest, mainly because of Symphony's thinly disguised ambition of unseating Bloomberg as the financial world's dominant information and communications resource.

But the project has broader resonance, too. It is symptomatic of a trend among financial services groups, particularly the big banks, to collaborate far more than they have tended to in the past. Symphony brought together a roster of traditional rivals alongside Goldman, including Bank of America, BlackRock, Citadel, Citigroup, Credit Suisse, Deutsche Bank, JPMorgan Chase and Morgan Stanley.
This week, another co-operation deal is set to be unveiled. Three of those same banks — Goldman, JPMorgan and Morgan Stanley — will announce they are teaming up with another tech start-up, SmartStream. They are aiming to create a collaborative utility to help process securities trades more efficiently. The utility

will harmonise securities coding differences between the front, middle and back offices across the groups involved. It is a simple idea to fix a problem that, like many in banking, went unaddressed for all the years that business was booming.

These are just the latest initiatives. Over the summer, a parallel post-trade collaboration emerged, when 13 leading financial services companies (including Goldman) revived plans to boost the effectiveness of a hub for the processing of swaps and derivatives trades. The project is routed through AcadiaSoft, a joint venture US software company founded in 2011 by eight big banks. It aims to smooth out problems among counterparties over collateral calls ahead of tougher 2016 rules.

A separate post-crisis regulatory impetus — to improve the quality of banks' information about their clients — spurred yet another combined effort last year. The Depository Trust & Clearing Corporation, a clearing and settlement body, teamed up with Goldman and a handful of other banks to share information that will help them comply with tougher "know your customer" rules.

It is all rather mundane stuff, compared with the high-octane mergers and acquisitions that used to take place among banks up to and in the immediate aftermath of the financial crisis. Now is precisely the time you might expect bank M&A to be booming. Just like other companies whose deal making has gone into overdrive this year, banks would normally be keen to cut costs and expand revenue amid strong equity valuations and cheap debt, especially with global growth so anodyne.

But big bank M&A is impossible, given policymakers' drive to counter institutions that are "too-big-to-fail". Mundane collaborations are about as exciting as big bank dealmaking gets these days.

Philippe Chambadal, SmartStream's boss, believes the hidden pipework of "post-trade services" is full of opportunities to save money — by sharing those pipes, cutting back office jobs and handing management of systems to a third-party technology company. "There is between $50bn and $65bn of waste in the post-trade world," he says.

Expect more such deals, says the finance director of one big European bank, suggesting that the growing dominance of US investment banks over their more challenged European rivals could be reflected in rival collaborations on either side of the Atlantic. M&A clearly poses risks. But so can co-operation deals — particularly if they hurt competition. Any bank that is not part of a utility sponsored by its main rivals may lose out on business or be disadvantaged in other ways.

But there is at least one area where a collaborative approach could be just what the world needs. Banks have accused regulators of compounding recent market volatility with tougher rules on marketmaking — a development that is spooking some investors. Time, surely, to create a new pan-industry marketmaking utility.