kids, what you have here is fintech

What seems like 100 years ago, energy companies watched the emergence of a whole new technology class: ERM (energy risk management) or later ETRM (energy trading risk management) or more broadly CTRM (commodity trading risk management). We're talking mid-to-late 1990s to the early 2000s. Energy markets were deregulating and becoming the latest Wild West market to embrace. "Energy derivatives" was a shiny new term, and Wall Street economists, risk guys and traders were flooding to Houston. Once they got there, they were shocked to see few systems – outside of Excel spreadsheets -- existed for managing the new risk that was fast emerging from the new marketplace. Zainet was an early leader in transactional risk management. Company founder Brian Scanlon cleverly converted his early fintech/ financial risk management platform to an early mainstay for the financial energy sector. All the cool kids had to have Zainet, complicated and expensive as it was. Marty Chavez and Raj Mahajan next brought a (fairly) easy-to-install, (fairly) easy-to-manage Kiodex into your trade floor to manage financial and physical risk, and later eased the whole platform to the Web. A thousand smaller firms swept into the market in those early days, and a half dozen firms got very big. One of them, Sungard, went on a decade-long buying spree to gobble up the competition in the legacy energy risk tech space (including Zainet and Kiodex) only to be later bought out by a giant finance tech firm named FIS in 2015. In 2015, we don't think the term fintech had been invented, at least in its current meaning.

We do have a point.

A second wave of technology innovation came to the fore, post-financial crisis, and has been evolving at a vast pace in the financial services space ever since. The technology has evolved and changed as much as has its definition. Fintech meant something different in 2008 as it does now. It's far more inclusive. Sure, it's cutting-edge transactional systems, but it's also machine learning and cyber security and blockchain, and AT and of course the ubiquitious cloud. Let's agree, all of it now falls under the bright, broad new rubric of fintech – transactional tech is only part of it. If you're moving and managing bits, we're talking fintech. If it's transactional in any way, it's fintech. Does it matter if you're moving or managing molecules or tons or barrels or interest rate spreads? Nope. It's all fintech. And the trend for all of it is pointing to the cloud for computing, storage or analysis, regardless of market, product or strategy or budget. Fast and flexible, ubiquitous systems are being assembled every day to help you manage all of your transactional and risk needs, offering you high security, high speeds, lots of storage, lowish costs, exact reporting and since the platform and necessary apps are all in the cloud, fewer staffers to make it all hum. Legacy it ain't. *(See sidebar story with Gordon Allott of BroadPeak Partners.)*

It really is an astonishing technology evolution, and not just for the financial sector, but also for energy sector and every other sector. Fintech is all about linking and connecting and facilitating the transactional commiunications between potentially all things, all the time. It brings an entirely new depth to the term, *transactional risk management.*

In a recent interview with the CFTC's acting chief, Chris Giancarlo, we learned that he plans to embrace fintech to a level not seen before at the agency. He says that our new president wants to grow the economy "and economic growth in this country comes from technology growth," Giancarlo says. "We need to make the CFTC a 21st century digital regulator and no longer an analog regulator. If we don't know how blockchain works, how can we ever benefit from it? We need to partner with fintech companies to raise our game," he says. Late last month, the agency announced that Jeffrey Bandman would be stepping down as acting director of the

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Fintech in Energy: "it's wide open"

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We said earlier that ETRM as a term is becoming "old, legacy thinking," in this modern era of fintech. Old thinking in that it's far too narrow, too limiting. Gordon Allott of BroadPeak Partners tends to agree. Allott's company offers a product called the K3, an integration platform that allows users to interface all of their disparate systems and data flows, as in faster, better, stronger. It's not just trade data and trade and risk systems and apps integration, it's really (potentially) everything. Think, *general integration.* Think, moving any data to any system. Nice idea, eh? Very fintech. Scoop up as much data as you can, assess it anyway under the sun, make better decisions. For those of you who recall the energy marketplace in the early 2000s, you might recall Allott's earlier product – an ETRM system called K2. Great stuff for the time, but he'll be the first one to tell you, "old thinking." And his new thinking just landed a huge deal with CME to deliver trade data better, stronger, faster, any way you like it. "We created a partnership to deliver CME trade and order data in any format and at any velocity. Essentially, we put K3 in front of the exchange that allows companies to get their data in a form and format that works best for them. In the current regulatory climate, companies need just about everything that is happening on the exchange. We are simply using K3, our integration platform, to deliver," Allott says. You will contract with CME for data, as always, and K3 will now do all the heavy lifting. It can also feed to all trade repositories including CME, DTCC, ICE in the US and Univista, RegisTR in the UK.

We had contacted Allott originally to talk about trends in fintech and learned about this CME deal (it should be announced next week). He says that fintech generally, in the business-to-business mar-

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Division of Clearing and Risk (DCR) to become an adviser on issues related to financial technology (fintech). The agency release noted that his new focus on fintech innovation issues includes "those arising from distributed ledger technology and virtual currency derivatives. His work will concentrate on key immediate priorities such as identifying challenges to fintech innovation in areas within the CFTC's jurisdiction and proposing ways to address them. He will also focus on ways to heighten the CFTC's engagement with the underlying technology … " "I've got big plans in this area," Giancarlo told us.

Fintech is redefining risk across markets, across asset classes, consumer classes and regulatory boundries. Particularly regulatory boundaries. Energy execs and those tasked with energy market oversight need to begin to start thinking not so much in terms of energy risk management or cyber risk management or market risk, or operational risk, or regulatory risk, but rather, *risk*.

Today and into the future, "it's all risk, all the time and it's all connected." Cloud-based technologies and systems, apps and platforms are available today that can be easily combined to identify, link and assess risks to your operation, or future operation that heretofore you've never been able to link and assess before. Trade surveillance and machine learning, transaction risk, cyber security, reporting and compliance, HR, to retail sales and dispatch – we all need to start thinking in bigger, broader risk terms so that we might manage our thousands of individual and varied risks, more effectively.

Thank God, this publication is called the *Risk Desk*.

We wanted to point you to a new report that comes to us from the good folks at IOSCO (International Organization of Securities Commissions). It looks at the opportunities and risks, as in the disruptive forces of new technology presented by fintech to all levels of participants across all markets, from investors to regulators. This report is mostly geared to the securities markets (old thinking we'd say), but the way we see it, it's really about all markets and all participants, securities or otherwise.

The report notes that the fintech landscape can be mapped across eight categories: payments: insurance, planning, lending and crowdfunding, blockchain, trading and investments, data and analytics and security. "Of these, certain aspects of planning, lending and crowdfunding, blockchain, trading and investments, data analytics and security can intersect with securities regulation … " Or, futures regulation or … (*http://www.iosco.org/library/pubdocs/pdf/IOSCOPD554.pdf*).

The report detailed numerous emerging financial services technologies, and more importantly, the intersection of these technologies, including financing platforms, retail trading and investment platforms, institutional platforms and distributed ledger technologies (blockchain). The report concluded that "key trends, such as the greater availability of data, exponential growth in computing power allowing the analysis of ever larger data sets, broader access to and the decreasing cost of goods and services, increasing disintermediation and re-intermediation, and demographic and generational changes, all point toward a crossroads of significant technology-driven change in the offering of financial services.

"These trends are spurring securities regulators to adopt proactive measures to keep pace with technological innovation and tap its potential for rendering the financial system more inclusive, efficient and resilient. Some regulators have established dedicated fintech offices, contact points and hubs. Others are launching regulatory sandbox frameworks that enable innovators to experiment with fintech solutions for financial services. Still other regulators have set up labs and accelerator programs to explore how new technologies can help them better achieve their regulatory objectives.

"Fintech applications are developing at an increasingly fast pace, creating opportunities to achieve better investor outcomes, such as greater accessibility by previously underserved segments of modern portfolio theory-based investment at lower cost; easier comparability of investment options, costs, fees and investment returns; greater investor choice and diversification; and greater financial inclusion. The latter is especially true in emerging markets where, due to the lack of legacy infrastructure, fintech is often able to leapfrog current technology.

"At the same time, as with any change, come new risks and vulnerabilities. Though these risks differ depending on the technology, certain risks are recurring across the fintech sector, such as those arising from unlicensed cross-border activity, programming errors in the algorithms that underlie automation, breaches in cyber security and the failure of investors to understand financial products and services.

And the final kicker: "While tech firms operate globally, regulation is conducted largely within national or subnational borders. The local nature of regulation may create challenges regarding cross-border supervision and enforcement, whereas regulatory inconsistency across jurisdictions increases the potential for regulatory arbitrage. The global nature of fintech therefore creates challenges that regulators should address through international cooperation and the exchange of information …"

Read the report. Regulators back home and abroad are really thinking about this stuff. So, think disruptive, think big.

(FINTECH IN ENERGY from page 9)

ket, in energy especially, is just getting started. "It's virtually untapped. What a lot of people don't understand is that there has been a total and complete technological revolution since 2007. What used to take 20 developers in 2005 now takes five. But the fintech catch is this: Not only do you need to fully embrace new technology, you must have deep subject matter expertise in the business problem," he says. "This is where companies like Digital Asset Holdings and Currency Cloud are real change agents. They're using technology and really solid subject matter expertise to create real B-to-B landscape change." Interestingly, he says that across sectors, 'large enterprise' (systems) are still not comfortable with cloud. "Ninety-five percent is on premises, or Private Cloud and trade data rarely goes out of house." For the energy sector, he says the promise of fintech is "wide open territory." He says, "we only see a very small handful of firms like us using newer technology. I mean we all have to ask ourselves, how come Facebook can provide real-time updates across two billion people, but I still can't get a real-time position and P&L on my commodities portfolio." An excellent question, though to be fair, we thought that real-time P&L was entirely possible, through outfits like OpenLink, etc. "I totally disagree with you here. Ask your traders. Most don't even bother with ETRM systems because they are not as useful. End-of-day calcs and so on, take hours to complete," Allott says. *www.broadpeakpartners.com*