Q&A

Saul Zaidman,
Head of business development,
Finotec Prime Brokerage

Q How do you see the prime brokerage (PB) business going forward?

Saul Zaidman, head of business development, Finotec Prime Brokerage: Due to traditional Tier I PBs raising their capital adequacy requirements for existing clients, and others losing their appetite for providing PB services altogether, we see the prime broking business moving rapidly towards specialised prime-of-prime (PoP) brokers that can offer a comprehensive suite of services.

PoPs such as Finotec are going beyond the basic PB offerings and giving their clients significant added-value services such as access to aggregated direct bank and non-bank liquidity, and a range of electronic communications networks (ECNs), as well as fully transparent trading conditions. As a result, we're seeing an increasing number of market participants questioning the benefits of traditional PBs versus the advantages of going with a PoP instead.

Q Will bank PBs withdraw from smaller clients on profitability grounds?

Saul Zaidman: This is certainly the case, and we have already seen several bank PBs withdrawing from smaller clients due to lack of profitability. However, in addition to profitability concerns, smaller clients are seen by banks as posing an unacceptable credit risk. While it was mainly larger clients who caused the biggest losses for the banks on the day the Swiss National Bank (SNB) announcement caused the market tsunami, the banks' credit departments still regard smaller companies as a potential threat in the event of a future market meltdown.

Q Do PoP providers have a lesser or greater role to play in credit provision going forward?

Saul Zaidman: While PoPs are still bound by the credit they are offered by their own PBs, essentially, we have more freedom to set the rules on what to offer our clients. Admittedly, some PoPs still have a more liberal view when it comes to the credit provision they offer clients, in the hope of attracting more clients by offering greater leverage.

At Finotec, we believe we have a deep responsibility to our clients and to ourselves, and thus adhere to a robust policy of providing the same margin requirements and leverage provision to our clients that we're offered by our own PB. This means we are never exposed to our own funds being utilised, as clients are only able to trade up to their allowable leverage levels. In addition, we are very strict in ensuring that we are on top of any margin calls and demands for greater margin posting when clients fall below their deficit levels. We understand this may mean turning away business from clients that require large leverage levels, but this allows us to maintain the trust and confidence of our existing clients, while protecting ourselves from sharp market movements and extreme volatility events in the future.

Q What role will Finotec play in the PB space in the future, and how can you ensure a profitable business despite rising costs?

Saul Zaidman: Finotec's ethos has always been to provide its clients with a complete package of PB services, while maintaining full transparency of all its offerings, whether pricing, execution or post-trade maintenance. In fact, Finotec is one of the only PoP brokers that discloses the name of all parties involved in a trade, enabling clients to know both the name of the liquidity provider (LP) with which they have traded and the price. We are also one of the few prime brokers that can offer direct access pricing to such a large number of Tier I bank LPs, as well as access to all the major ECNs in the FX market place, combined with an infrastructure robust enough to clear all clients' business in a single account.

Finotec will continue to act as an innovator in the PB market, providing a comprehensive prime broking service or one-stop shop for all institutional FX trading requirements. Our mission today is to broadcast this message to the market: that clients can feel more empowered knowing exactly who they have made a trade with, reassured that they don't need to run around looking to open accounts with multiple venues, and confident in the knowledge that they have access to all the LPs they want and the tightest spreads they will ever see. Furthermore, they'll benefit from us integrating all the technology into a single margin account, with their own back-office trade-position viewing capabilities.

Indeed, costs are rising as the market sees bank prime brokers raising their costs and widening their spreads to compensate for the potential future losses of the next SNB-type event. However, Finotec is seeing a massive increase in demand for its offerings, resulting in month-on-month increases in trading volumes. Since the end of the last quarter, we have been inundated with new accounts from small hedge funds, proprietary trading shops, investment managers and retail brokers that are looking for a transparent PoP provider. As a result, we're forecasting a substantial increase in profitability as our operating fixed costs remain fairly constant. In fact, with the rate of onboarding of new clients in the last few months, the increase of executed trade volume is anticipated to generate a 200% rise in our monthly cleared volume, which currently stands at around $36 billion per month.

For Finotec, keeping our business profitable in this constantly evolving industry means a continuous focus on innovation and an intimate understanding of clients' needs. We'll continue to be guided by our unique approach of not conforming to the traditional practice in the FX market of secrecy and lack of information, but rather giving full transparency and optimal trading conditions to the market. *www.finotec.com*