

FOCUS ON

# SYNTHETIC PRIME BROKERAGE

With more focus than ever before on their global Prime Services offering, Scotiabank is expanding beyond its historical Canadian-based focus. Mark Schilling discusses the bank's background and prime services offering



A view of Scotiabank's office in Toronto

Scotiabank has recently emerged as a full-service and global prime services player. However, prime services have been part of the bank's offering for the past decade. Historically focused on the Canadian hedge fund landscape, offering prime brokerage, custody clearing and reporting in the domestic space, the company has quietly been expanding its offering to compete on a more global scale.

While Scotia already had a strong securities lending presence in Toronto, New York, London and Singapore, its focus was not on servicing hedge funds outside of Canada until a few years ago. Following the credit crisis, the firm capitalised on the significant flight to counterparty quality from larger US hedge fund firms as such issues as counterparty strength and asset protection emerged. More recently, the firm decided to make a more determined and active push to develop a global offering.

First, the company made a number of strategic hires across the globe, including John Stracquandano who had previously built up Barclay's US PB business. One of his initial goals was to gain regulatory approval for a US domestic prime brokerage unit which was accomplished in 2011. Second, Scotiabank acquired Daiwa's synthetic prime brokerage business in late 2011.

The acquisition of the synthetic prime brokerage business coupled with the bank's strong balance sheet and creditworthiness (Scotiabank has consistently ranked as one of the world's safest banks including most recently placing third in *Global Finance's* annual survey of "The World's Safest Banks 2013 in North America") allowed Scotiabank to round out their product offering. Scotiabank's goal was, and still is, to service hedge funds on a global basis and offer exceptional service, robust risk reporting, and strong securities lending.

## THREE PILLARS

The three pillars of the group currently include cash prime brokerage, synthetic prime brokerage and securities lending plus auxiliary services including capital introduction and hedge fund consulting services. With a fully integrated and established platform, all facets of the product have been streamlined to best service clients. Both synthetic

### CORE PRIME SERVICES

- Cash Prime Brokerage
  - Margin Financing
  - Clearing & Custody
- Synthetic Prime Brokerage
- Customised Real-time Reporting
- Capital Introduction and Hedge Fund Consulting
- Risk Management Tools, Analysis and Reporting

### SECURITIES LENDING

- Traditional Securities Lending
- Margin Lending
- Agent Lending
- Repo

### EXECUTION

- DMA / Algorithms
- High Touch Sales & Trading
- Active in 40 markets
- Multi-Asset Class Capability

CORE PRODUCTS AND EXPERTISE	CANADA	US	EUROPE	ASIA
SYNTHETIC PRIME BROKERAGE	✓	✓	✓	✓
RESEARCH, SALES AND TRADING	✓	✓	✓	✓
NEW ISSUES	✓	✓		
FOREIGN EXCHANGE EXECUTION	✓	✓	✓	✓
MULTI-CURRENCY PLATFORM	✓	✓	✓	
CAPITAL INTRODUCTION	✓		✓	
SECURITIES LENDING	✓	✓	✓	✓
MARGIN FINANCE, CLEARING AND CUSTODY	✓	✓	✓	✓
MULTI-ASSET CLASS CAPABILITY	✓	✓	✓	
CLIENT SERVICES	✓	✓	✓	
FUTURES EXECUTION AND GIVE-UP ARRANGEMENTS	✓	✓	✓	✓
START-UP CONSULTING	✓		✓	
CUSTOMIZED REAL-TIME REPORTING	✓	✓	✓	✓
DMA	✓	✓	✓	
RISK MANAGEMENT TOOLS, ANALYSIS AND REPORTING	✓	✓	✓	✓

**Mark Schilling,**

head of prime service sales and sales trading, joined Scotiabank in 2011 as part of the firm's purchase of Daiwa's Synthetic Prime Brokerage business. Prior to this, he held various roles at Citi, Lehman and Credit Suisse, all within prime services and has more than 18 years of financial services experience with a particular focus on prime brokerage, financing and securities lending.

and cash prime brokerage offerings run alongside each other aiming to complement the needs of various styles of hedge funds, offering funds the option to trade through swap or cash.

"We use the same infrastructure and access the same securities lending supply therefore the synthetic offering runs as a complementary product alongside our cash prime brokerage offering," Mark Schilling, head of prime service sales and sales trading at Scotiabank, says.

He adds: "Our aim is to grow the business by making smart decisions, partnering with our clients and fully engaging our counterparties to ensure we understand our clients front to back. The continuity of the businesses is very important, so Scotia wanted to make the right decisions and now that it is in the synthetic prime brokerage space, being fully supportive to its clients is the top initiative for the bank".

**GLOBAL VIEW**

The firm has gone from offering prime brokerage to a primarily Canada-focused hedge fund client set to offering global solutions on a cash and synthetic basis to a wide variety of institutional hedge funds. The opportunity to purchase Daiwa's synthetic prime brokerage business came at a favourable time allowing Scotiabank to enter the SPB market much quicker than if it were to build organically. Following the acquisition, the initial year of transition was spent focused on integrating the product, ensuring that the firm understood how the business operates and making sure it truly understood prime brokerage on a global basis.

The firm's focus in 2013 was shifted towards on-boarding customers globally, building up its presence outside North America and Europe, and gaining regulatory approval for new markets (equity swap is currently offered in 40 markets). The group has utilised its strong retail and corporate banking presences in Latin America and Asia to gain footholds in markets which have been historically difficult to enter.

Scotiabank has also made a number of strategic new hires across all the regions in which it operates including Singapore, London, New York and Toronto.

The global progression has occurred at an opportune time as an ever-changing regulatory environment has forced most banks to determine which capital intensive divisions are essential to their business. Schilling believes Scotiabank is well positioned to tackle these challenges while increasing its global footprint within the prime services landscape: "The continual pressure on some of our competitors to shore up their balance sheet and/or increase their returns should create opportunities for us."

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Scotiabank's primary goal for 2014 will be to expand its global footprint. "Our main focus will be on brand awareness. At the moment we are probably not the first name many people think of when launching a hedge fund or adding synthetic prime brokerage but we have everything required in terms of the product offerings we have in place. Over the next year we will continue to get our brand name out there so people are more aware of our capabilities," says Schilling.

The company aims to be seen as a credible synthetic or cash prime broker to complement some of the larger hedge funds through their existing prime brokerage relationships. ■