

RIGHTSIZING EUROPE, FOR GROWTH

Mike Brian of Scotiabank highlights the key factors in building a successful business and discusses their future



Mike Brian joined Scotiabank in August 2015 as MD, head of prime services, Europe. He was previously at Barclays Investment Bank (formerly Barcap) where he held a number of regional and global roles over a 12 year period, most recently, MD, head of prime brokerage, Europe and covering fixed income and equity assets.

HFMWeek (HFM): Scotiabank has a strong and mature prime business in Canada and North America, but what are your aspirations for Europe?

Mike Brian (MB): Prime Services has been one of the fastest growing businesses for Scotiabank Global Banking and Markets over the last five years. Initially, our prime services business was focused on Canada, but we have since expanded our platform to meet the needs of our clients in various global markets.

We have grown our prime services teams in our offices in Singapore, London, New York and Toronto, and we are very excited to be able to deliver a global solution to our clients. While we have had a European securities lending presence since 2006, in 2011, we acquired the synthetic prime brokerage platform from Daiwa Securities. We recently introduced a European and Asian cash prime brokerage offering and added European cash equity execution services to better meet our clients' global needs. We are able to offer cash and synthetic prime brokerage from various branches of The Bank of Nova Scotia, allowing clients to benefit from facing our most highly capitalised entity.

The build-out of our European and Asian services offering allows us to deliver a global solution to our Canadian and North American clients, while maintaining focus on the specific needs of our local European client base. We continue to make significant investments in Europe in terms of growing our team, enhancing our systems and increasing the financial resources available to our clients trading in these markets.

HFM: What do you consider to be your key differentiators?

MB: Prime services is ultimately a financing business and our credit rating and financing capabilities allow us a distinct advantage. With an A+ Standard & Poor's long-term credit rating and stable outlook¹ for its parent bank, Scotiabank is considered stable and secure by our clients. Indeed, some of the interest to add us into the mix of prime brokers servicing a manager has been investor driven.

Given that we are a newer entrant to global prime services and have had a more targeted approach to our markets activities historically, we do not have some of the legacy assets and portfolios that place our competitors under balance sheet and capital pressures, particularly in the new regulatory environment. This advantage allows us to work with existing and prospective clients on a mix of businesses that allows us to achieve our returns hurdles while meeting the clients financing requirements.



The Bank of Nova Scotia has not been identified as a Globally Systemically Important Bank (G-SIB)² and as such, is not subject to the same capital requirements as some of the larger and more established prime brokers. This is one of the factors that make us a more attractive counterparty – not just for hedge funds, but also for agent lenders and other financial institutions.

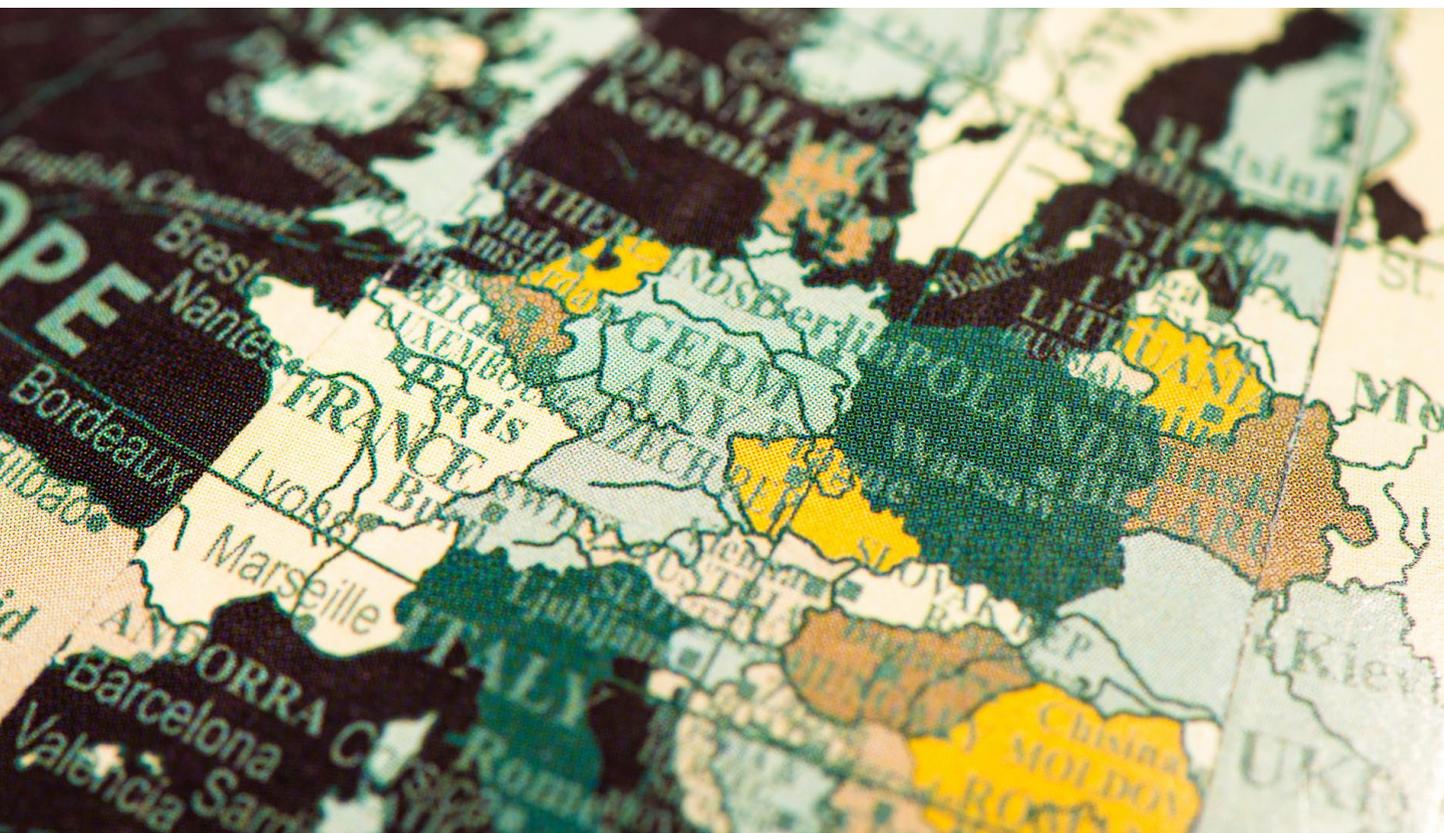
HFM: Why have you seen success and growth in your prime services business?

MB: We see our hedge fund clients giving a lot of thought to counterparty selection, including considering geographical and political diversification as key criteria. As a Canadian bank with a global platform, we have been well positioned to benefit as the larger more institutional managers have sought some diversification, moving away from concentrations with European and American banks.

We also want to differentiate ourselves by the quality of coverage that we provide to support our clients' trading, financing and operational requirements. As a smaller team, we feel that we are well placed to better coordinate across all aspects of prime services to deliver more cohesive client service. Over the past year, we have received increased allocations of business from existing clients based on the quality of our product, service and pricing.

HFM: What are the challenges?

MB: The markets have been challenging, with some key events this year creating an uncertain investment landscape for managers, resulting in mixed returns and some investor redemptions. During this time, we have focused on our platform, our people and our brand to ensure we build for the future. We have also focused on our clients and making sure we can help them, by managing inventory



and trimming costs through competitive pricing. We have gained market share during this period and are positioned for further growth. Interestingly, during times of uncertainty, we have found clients want to do more with us, not less. For example, in the days following the Brexit vote, we had several enquiries from large managers interested in understanding our platform and capabilities in more detail.

HFM: What are the key facets on which you are building your business?

MB: We want to bring additional transparency to equity financing – a market which we believe has historically been too opaque. We want to be a stable financing partner and to work with clients to do business that is mutually beneficial. We are very careful to ensure that it makes sense for the client and for Scotiabank when pursuing business. Transactions that occur solely based on pricing and scarce resources do not tend to sustain a long term relationship.

We are building our cash equities offering and technologies which will allow us to generate additional fee-based revenue streams and complement our returns from financing and securities lending.

HFM: Where are you investing?

MB: Over the last year we have invested heavily in both people and product. As I mentioned, we have added a European equity execution platform and see this as an essential part of our offering. We have been building out the operational infrastructure, including installing a new European equities settlements system, so that we can handle a much larger scale of business.

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In terms of the European team, we have been able to recruit from the most established prime brokers – attracting individuals who want to work for a prime services business that is growing and investing in its platform.

I was personally very excited to join Scotiabank to have access to the resources of the firm (financial, technology, talent and others) which allow us to expand at a time when many of our competitors in the Prime businesses are in consolidation or reduction mode.

HFM: How important is prime services within Scotiabank?

MB: Prime services is considered within Scotiabank to be the ‘corporate bank’ of global banking and markets, pulling together a number of global markets functions and leveraging the balance sheet. Scotiabank has long been in traditional lending businesses, so Prime Services is a natural extension of our more linear lending activities but with the added advantage of building an inventory of liquid and valuable collateral. John Stracquadanio, global head of prime services adds: “Besides prime services being a solid and profitable standalone business covering a diverse client base, we see this business as a natural cross-sell engine to our global banking and markets platform, and the rest of Scotiabank overall.” ■

¹ As at July 31, 2016 – Long term debt/Deposits, Standard & Poor’s.

² There are no Canadian banks designated as global systematic important banks (G-SIBs). The Bank of Nova Scotia is designated as a domestic systematic important bank (D-SIB) in Canada. Reference Financial Stability Board.