Canada's brokers compete on service

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The prime brokerage market in Canada has enjoyed dramatic growth in response to the influx of hedge funds that have started up over the past few years. We continue to see new players coming into the field because they realise that potentially, if you do it right, this can be a very profitable segment of the market.

To a large extent the market is dominated by the dealer arms of the main Canadian banks -Toronto-Dominion Bank, Royal Bank of Canada, Bank of Montreal, Canadian Imperial Bank of Commerce and Bank of Nova Scotia, in no particular order. There has been a certain amount of interest from the big international investment banks, but the hedge fund market in Canada is not as mature as it is internationally, and as a result many managers are not yet of a size that would pique the interest of some of the larger global players.

As the prime brokerage market has grown substantially over the past couple of years, the level and range of services provided by TD Securities and other market leaders has grown immensely, especially in terms of client service and technology.

Prime brokerage surveys consistently identify customer service as the top priority, and it is very difficult to service managers if you don't understand their business. This means that the quality and experience of staff is crucial. At TD Securities, for instance, this calls for relationship managers who are very strong in terms of back office experience and have a track record of 'working in the trenches'. It is vital that they understand the challenges that hedge funds may experience on a day-to-day basis, which is why TD Securities insists that its relationship managers have knowledge of the issues that may arise and that they understand aspects such as corporate actions, settlements and leverage.

The same philosophy applies to technology, on which clients rely heavily. The advantage of having a very strong technical team behind the prime brokerage business is that it makes it possible to provide customised solutions for clients to help run their business more efficiently. TD Securities has repeatedly won mandates from clients with the help of IT specialists who help analyse client requirements and enable us to provide services that other prime brokers cannot.

Canada's home-grown prime brokers may not be in a position to compete head-on internationally with the likes of Goldman Sachs, Bear Stearns and Morgan Stanley, but firms like TD Securities do enjoy an advantage over the big players when it comes to large international hedge funds who manage billions of dollars and have a substantial amount of capital allocated to Canada. We like to think we know our market better than any of the big players, and certainly we have better access to product for short selling.

Another area in which Canadian prime brokers are showing strength is in the area of capital introduction. Some prime brokers are hosting their own conferences or pairing with conference organisers as TD Securities did in London earlier this year. The prime brokerage market in Canada has changed considerably over the past five years, certainly in terms of the number of players but also in the dramatic growth in levels of expertise and the range of services provided, and that is set to continue. More competition is good for the market in many ways. New players trying to play catch-up are spending considerable amounts of money, and the original players continue to invest to keep ahead of the game. Ultimately the beneficiaries are the clients!

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