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(Translated by Calyon)

Newedge sees a new market bubble taking shape

Global leader in listed derivatives brokerage, Newedge warns that the current interest rate climate is replicating the very conditions that led to the recent financial crisis. Here the company's CEO gives his view on the course of the debate over market regulation.

The same causes could lead to the same effects. Patrice Blanc, Chief Executive Officer of Newedge, one of the brokerage world's heavyweights, is convinced of it. **"An environment of very low interest rates and U.S. dollar carry trade is the main thing driving up the financial markets,"** he comments. The risk, as he sees it, is that **"we eventually fall back into the very same problems as those that ignited the crisis."** All the more so given that **"the real economy is still not back on its feet, even if the worst appears to be over."** Very accommodative monetary policies - which **"will most likely be maintained for much of 2010"** - have dented trading in listed derivatives, especially short-term interest rate contracts. This has been offset by volume increases in equity and forex trading.

Newedge has not been hurt by these events. Its global listed derivatives market share has grown slightly in 2009, to 12% from 11.5% the year before. **"Our business model emerged stronger after the successful merger of two large brokerage firms, Fimat and Calyon Financial,"** declares a contented Blanc, architect of the link-up announced in early 2008. Newedge's two equal shareholders, Société Générale and Calyon Crédit Agricole CIB, promised the firm autonomy, **"a key asset."** The new entity has **"now fully integrated listed products in its order execution, clearing and IT systems."** The merger is complete in most aspects, and will be wrapped up in late 2009 and early 2010, according to the CEO.

To confront the crisis, Newedge naturally cut costs, but **"without imperiling our operational profile or our industrial plan."** In this framework, the critical mass achieved through the union of Fimat and Calyon Financial plays a crucial role. Just one true unknown could interfere with the success of Newedge's development plan: the regulatory framework that will emerge from the global debate that has gone on since the crisis erupted. This is all the more true because at this stage, the contours of global reform of the standards that will govern the markets are still very vague. Nothing of any significance has been decided so far. **"Newedge supports the regulators' efforts to create a more efficient regulatory environment for trading,"** affirms Blanc. The company is confident it has the **"right positioning and appropriate strategy for the current regulatory framework."** However, the Newedge boss does not hesitate to point out the inherent difficulties and risks of the plans. His overriding concern is the clearing problem for over-the-counter contracts. **"Clearing for over-the-counter products will only work if participants are offered a viable business model, which does not yet exist."**

The pure brokerage model

Tightening up the rules on capital dedicated to non-clearing trades in over-the-counter derivatives **"is not enough of an inducement to prompt all participants into**

clearing.” In contrast, **“raising the threshold of capital that clearing platforms handling over-the-counter contracts will require could turn out to be a better and more reliable system.”** As for standardising over-the-counter contracts, a necessity for settlement by ad hoc organisations, Blanc sees problems there too. The questions it raises mainly have to do with fund managers’ access to clearing. **“Rules for giving this category of operators access to this service still need to be defined,”** he emphasised.

The final burning issue in regulatory reform is the segregation and fungibility of investors’ positions among clearing agents. Newedge predicts that the best approach for most players will be individual segregation of contracts’ collateral. Whatever happens, Blanc believes with certainty that the looming changes in regulation will give way to a new round of consolidation in the brokerage sector. The model that will come out on top, in Blanc’s judgment, is that of the pure broker – Newedge, for example.

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