

Publication date: March 8, 2010

Newedge to be organised by business line

The listed derivatives brokerage specialist that resulted from the merger of Calyon Financial and Fimat in early 2008 is continuing with its restructuring. It will be organised by business line and intends to profit from trends in the markets and in regulations.

The global leader in the brokerage of listed derivatives is continuing to evolve. Newedge was the result, slightly more than two years ago, of the merger of Fimat and Calyon Financial, respectively subsidiaries of Société Générale and Crédit Agricole, and the company has decided on a business line organisation. *"This is the beginning. The plans are made and we will make the switchover in July,"* reveals Patrice Blanc, the brokerage firm's chief executive officer.

The first business line will combine activities in futures, options and equities, where the company can boast of being the global leader with market share of 11.6%, ahead of Goldman Sachs, JP Morgan and UBS. *"Currently we represent the liquidity on interest rate options and stock market indexes. Clients and brokers therefore naturally turn to us,"* the Newedge CEO is pleased to report.

Based on this know-how, the broker also succeeded in becoming a leading global clearing house that benefits from the support of two bank shareholders and which is the project's second business line. *"We have developed a tool capable of absorbing high transaction volumes,"* says Patrice Blanc, who is making high-frequency trading and market-making an important avenue of development. This is not without risk, all the more so in that the regulators have these professionals in their sights. However, *"these players favor liquidity, tighten spreads and, above all, have offset the decline in banks' proprietary trading,"* claims the Newedge representative.

Emerging currencies

Newedge's third business line is Fixed Income, Commodities, Currencies (FICC). In these areas the broker competes with the major financial-product brokers such as Icap, Tullett and Tradition. *"There is still room,"* says Patrice Blanc, who considers this the major diversification of 2009. *"In terms of foreign exchange, we are already present in the major currencies thanks to our offices in London and New York. We should also be present in secondary and emerging currencies and increase our efforts in Asia,"* he adds. On the other hand, in commodities, which account for 13% of revenues as an asset class, *"we do not want to continue to increase our share because of counterparty risk,"* says the executive. *"We will be more selective with respect to the type of client."* This is a point on which Newedge now places increased importance.

Lastly, the fourth business line is prime brokerage, i.e. brokerage services for hedge funds. There is no question of seeking complexity: *"The business model is based on plain vanilla products [editor's note: the most standard products], simple and liquid flow products,"* says Newedge. *"We accept no leverage effect except after having examined the client's positions in depth. It is above all a transactional activity,"* adds Patrice Blanc, who stresses the advantage of not having proprietary positions and therefore conflicts of interest with clients. This division by business line does not throw into question the company's existing regional organisation: America, Europe & the Middle East and Asia-Pacific. The first two regions contribute around 45% each and the last 12%. *"We will find the right balance between the two,"* affirms the Newedge chief executive. Until now, the restructuring has proceeded relatively well. Recurrent synergies between the former Fimat and Calyon Financial amount to nearly EUR 117 million a year while restructuring costs amounted to EUR 105 million. *"They increased by 15% relative to forecasts,"* say the executives. *"We were fortunate not to lose any clients. On the contrary, the crisis helped us attract additional ones."* The Lehman Brothers bankruptcy in September 2008 led to a shuffling of the deck in prime brokerage, and the regulation of OTC derivatives products with central clearing will create opportunities for independent brokers that are active in listed derivatives products. Patrice Blanc is convinced of that.

STEPHANE LE PAGE

© 2010 Les Echos. All rights reserved.

The use of this document is subject to international copyright laws and is the object of a specific authorization for its reproduction and communication to the public via the Internet.