# Hedge Funds Look To Pare Back Primes

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James Armstrong

Many hedge funds that loaded up on prime brokers as a result of the financial crisis are now looking at consolidating their trading with just one or two primes, according to experts.



Vernon Barback, GlobeOp

At the end of 2008 and the beginning of 2009, counterparty risk became a major concern of hedge funds, and many took on additional prime brokers, said Vernon Barback, chief operating officer at the independent hedge fund administrator GlobeOp.

Barback said he has not seen hedge funds reduce their number of prime brokers since after the crisis. But he has noticed that only a few of the primes now get the bulk of a fund's business.

“The prudent hedge funds have a high number of accounts, but actually concentrate the work load with a slightly smaller number,” Barback said.

Kristin Steele, head of marketing and business development for ISIS Fund Services USA, said there are disadvantages to dealing with too many prime brokers. From an administration standpoint, it can be difficult to deal with multiple settlement instructions or to reconcile portfolios when using five or six different primes.

Funds can also get better pricing by having just one or two prime brokers, she added. While investors, especially institutional ones, like to see at least two primes because of counterparty risk, she said most funds don't need more than that unless it's called for by their particular strategies.

“For clients that trade more esoteric types of securities, they need to work with various brokers,” Steele said.

Though many funds might currently have more prime brokers than they really need, it still could take a while for them to cut loose some of those primes. That's because the counterparty risk issue is driven as much by investors as it is by managers, according to Irwin Latner, chair of the hedge fund practice at the law firm Herrick Feinstein.

After the failure of Lehman Bros., no single bank could be viewed as risk free, and investors demanded that funds use multiple prime brokers, Latner said. Multi-priming became commonplace, in spite of the additional costs involved.

With institutional capital flowing back into hedge funds, the counterparty risk issue seems to have diminished somewhat as an investor concern, Latner said.

Kristin Steele, ISIS Fund Services

"We're seeing many small to mid-size funds going with a single broker, as that appears to be a more cost-efficient route," Latner said. "Larger funds may still be multi-priming, but the imperative to do so seems to have lessened."

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