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HFMWeek: Focus on Boutique Advisors

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HMFWeek speak to Antony Bryceson, managing partner with AB Trading Advisors, to discuss the vital role played by boutique business advisers

HFMWeek (HFM): What led you to launch AB Trading Advisors?

Antony Bryceson (AB): AB Trading Advisors (ABTA) launched in September 2014 to advise the buy side on prime brokerage, derivatives, clearing, ISDA protocols, repo and so on, as well as all of the associated regulation in this area. ABTA is an independent low-cost boutique, which is able to offer the best advice and service available in the market. Starting a new boutique firm has been a long-held career ambition of mine, and the time was right to take the plunge, both in terms of my own career and level of experience, and in terms of where the market is at the moment. I have always been very client-focused in my approach, and I am very much enjoying the success we are starting to have as a result.

When I started to engage with the market in the planning stage for ABTA, it quickly became apparent that that there was space for a new independent, high-quality boutique. Both start-ups and prime broker consultants tend to like working with an independent, cost-effective boutique because it's generally a win-win situation – if the client is properly advised and the process is handled efficiently, the whole process goes well. And if it costs less too, everyone's happy.

HFM: What is unique about the ABTA offering?

AB: First and foremost, unrivalled experience. I have been a leading practitioner in this field for more than 15 years, supervising large teams of lawyers for much of that time. Second, my favourite part of the job: getting on well with clients and delivering advice in a way which is relevant to them. Third, our fees are significantly lower than other, larger law firm fees. People often talk about principles such as these as they relate to professional services, but it's easier said than done to get them right. One needs to be very organised and highly motivated on the one hand, and absolutely driven by client relationships on the other - and one needs to be able to delegate and supervise effectively too. It has always surprised me how many lawyers I have come across during my career who either don't get on very well with clients or are completely disorganised, or sometimes both.

HFM: Do you provide differentiated service levels?

AB: We agree fixed fees for the majority of our work. This works well because the client has no surprises and can manage its own budgeting, and it also gives us a certain level of assurance as to our own revenues. For most of our clients, we provide the full service of review and mark-up and we manage the negotiation process too. A small number of our clients like to receive our advice, but manage the day-to-day negotiation process themselves.

HFM: Do you do other work aside from the core prime brokerage, derivatives and regulatory side of things?

AB: Yes, we cover a range of ancillary work. We will not take a lead role in drafting a fund prospectus, but we will cover a range of other service agreements such as administration agreements, director service agreements, trading advisory agreements and so on. Our 'niche' is to act as second fiddle to the big name fund lawyers such as SRZ and Simmons, in that we cover a lot of ancillary work which they would otherwise do, but for half the price. But we know our limitations: we will never accept an assignment unless it is well within our zone of expertise.

We also cover broker terms and associated compliance. In fact, for several clients we draft their terms and conditions which they require of their brokers.

HFM: How has ABTA's business grown since inception?

AB: We have a core base of clients, 15 at last count, including some top quality start-ups. It takes a while to build up business, but our clients have certainly responded positively so far. We only take on top quality clients on a selective basis. Our aim is to grow the business slowly and steadily, increasing our capacity in tandem with taking on new clients. There are a lot of high-quality lawyers available at the moment, so hiring excellent people is not a problem.

HFM: How has counterparty documentation changed in recent years in response to the slew of regulation?

AB: Counterparty documentation (being the numerous contracts between the fund vehicle and the dealer/counterparty with whom it trades) has increased in volume over the past few years. This has been driven almost entirely by three pieces of legislation: the AIFMD, the Dodd–Frank Wall Street Reform and Consumer Protection Act (the Dodd–Frank Act) and the European Market Infrastructure Regulation (EMIR).

HFM: What more can we expect in terms of AIFMD-related changes?

AB: AIFMD has caused a sea of changes in many respects. Prime broker documentation has been altered by the depositary requirements under AIFMD, whereby a depositary is appointed to perform certain duties in respect of the fund's assets, whether 'depo-lite' duties of safekeeping, cash monitoring and oversight duties, or the full AIFMD depositary obligations involving liability for restitution of the fund's assets. A prime broker will typically have been granted a variation of permission allowing it to act as trustee or depositary in performing the safekeeping function for custodial assets only.

In 'depo-lite' situations, the prime broker will typically agree to carry out the safekeeping duty (i.e. safekeeping of financial instruments held in custody) but not any other functions that the fund manager is required to ensure are carried out pursuant to Article 36 of AIFMD. Instead, other service providers will perform some of the functions such as cash flow monitoring, which may be performed by the fund's administrator. This 'multi-party' model has become more established than alternatives where a single depositary performs all relevant duties. The AIFMD depositary obligations are typically documented in a separate agreement with the prime broker.

HFM: And how has EMIR impacted counterparty documentation, so far?

AB: In addition to the EMIR ISDA Protocols, EMIR has already added delegation of trade reporting to the documentation roster, usually done by way of a delegation agreement whereby the fund delegates reporting to the prime broker. The prospect of central clearing of OTC derivatives is typically documented by a clearing annex/agreement such as the ISDA/FIA Europe OTC Client Clearing Addendum.

Although the documentation for clearing OTC derivatives appears new, certain key principles have been established in futures clearing

over many years. Clients must choose between 'individual client segregation' and 'omnibus client segregation' under EMIR's terms. There are also major documentation changes to come to accommodate planned margin requirements for uncleared swaps under EMIR.

HFM: How else have prime brokerage agreements changed in recent years?

AB: Remarkably little has changed in terms of the core provisions in prime brokerage agreements. After the apocalypse which was the Lehman bankruptcy, certain changes were made, for example to exclude custody securities from close-out provisions and to reflect the new requirements for transparency around rehypothecation.

In recent months changes have been introduced to reflect the FCA's Policy Statement PS14/9 from June 2014, which sets out the amendments which the FCA is making to its Client Assets Sourcebook. The new rules cover such matters as title transfer collateral arrangements for cash, treatment of shortfalls in custody assets and how the prime broker can register non-UK securities held on the fund's behalf.

HFM: And how else has counterparty documentation been changing?

AB: More and more jurisdiction-specific provisions are becoming the norm. In particular in the swaps world, it has become more common to have extensive documentation suites dealing with different countries and markets around the world, whereby different standards/provisions apply, depending on the types of asset underlying the swaps, and the market in which the asset is traded. This is a trend which is likely to continue.

BIO:

Antony Bryceson is managing partner with AB Trading Advisors, a new boutique firm which launched in September 2014. The firm advises buy side market participants (predominantly hedge funds) on their trading documentation (prime brokerage, custody, derivatives etc) and associated regulation. Antony has for more than 15 years been a leading lawyer in the alternative funds space, specialising in prime brokerage and derivatives.