

# Prime brokerage 2.0: How Archegos and Volatility changed the Prime Brokerage Model Forever



The past few years have been a rollercoaster for hedge funds. Prolonged volatility stemming from the pandemic and consequent shocks to the supply chain, soaring inflation, rising rates, war in Europe and the prospect of a drawn-out global recession, hedge funds have had to navigate a series of unprecedented market events in quick succession.

GET IN TOUCH

[View Ivan Chang's LinkedIn Profile](#)

[Find out more about Saxo Markets](#)

---

**BY:**  
**IVAN CHANG**  
**REGIONAL HEAD OF SAXO INSTITUTIONAL**  
Saxo Markets

**Performance during intense** volatility is the acid test for money managers. As hedge funds streamline their businesses and conditions intensify, the role of prime brokers – charged with the critical task of providing access to consolidated liquidity, custody, credit, trade reporting and collateral management – has also shifted dramatically to meet changing demand.

Prime brokers are the central counterparty to the operations of a hedge fund. The Archegos collapse thrust the hedge fund industry's risk management practices into the spotlight. In response, prime brokers have had to take on a deeper partnership role, forging unique relationships with hedge fund clients, knowing their business inside out and connecting them to the right solutions in line with their risk requirements.

As a result, effective prime brokers have developed, ultra-high touch client service covering trading, risk, technology, legal and regulatory compliance around the clock to support clients. So, in a profoundly different market, what are the key considerations for hedge funds searching for a prime broker and what are the three most common pitfalls?

**Risk management:** Market shocks, such as the meme stock trading frenzy and the Archegos debacle, changed everything for prime brokers. Credit terms, real-time portfolio valuations and the need for rigorous stress testing have elevated risk management to become one of the most important considerations for hedge funds. With the use of derivatives, tenor, and varied regulatory regimes calculating the loan to value has become increasingly challenging. A prime broker that does not properly understand risk or the complexities of trading can be dangerous – leading to failures that not only impact individual firms but market structure more broadly. Prime brokers have had to redefine their role as a result, placing the provision of credit and market access on a par with risk controls.

**A global, cross-asset offering:** With volatility ripping through all corners of the global financial system trading opportunities are not limited to a single asset class. Having a single prime broker able to offer



**IVAN CHANG**  
Saxo Markets

the complete value chain across listed and OTC markets and regulatory jurisdictions is a strategic advantage. The sophistication of quant strategies has also bolstered cross-asset demand with traders often requiring access to several asset classes, necessitating a broker that can support multi-asset participation over a highly available and robust technology stack. Prime brokers have therefore had to evolve in line with the market and its liquidity needs.

**Powerful technology:** Technology has become the kingmaker in financial services. With the rise of quantitative trading, prime brokers need to process huge volumes, over cutting-edge low latency architecture. Hedge funds house the most sophisticated traders and technology in the market – prime brokers are having to mirror this level of sophistication. Clients who are able to receive a fully integrated multi-asset service are able to solve onerous fragmentation issues and streamline back and middle office processes.

As we enter the era of heightened technological sophistication, prime brokers are moving beyond a market utility to become highly valued partners, supporting complex trading strategies and advising hedge funds at the highest level. Choosing the right [prime broker](#) is complex but it's critical to a hedge fund's smooth operations. ■