

DERIVATIVES: Deutsche Bank creates new market clearing group

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Deutsche Bank has overhauled its approach to client clearing of over-the-counter derivatives, establishing a new markets clearing group to provide listed execution and prime clearing services to clients across all asset classes.

The Dodd-Frank Act in the US has mandated a wider range of market participants to clear standardised OTC derivatives through central counterparties. This has led the relatively small group of dealers that are already signed up as clearing members to CCPs to offer client clearing services to other financial institutions.

However, Jon Hitchon, previously co-head of global prime finance at Deutsche Bank and now head of the new markets clearing group at the bank, believes many dealers are missing the opportunity to offer a fully-integrated clearing service to clients.

“It seems a lot of our competitors have looked at client clearing as an adjunct of their prime brokerage business, but we’re taking a more aggressive approach and view this as vital for Deutsche Bank maintaining its franchise going forward,” said Hitchon.

“Our view is we need to ramp up our efforts and pull together all platforms – rates, credit, FX, equities and commodities – and present the client with a seamless platform that provides them with clearing capabilities, collateral upgrades and other important client services.”

Hitchon signaled Deutsche Bank has invested significantly in systems, technology and people in order to enhance its client clearing offering. Services will include collateral upgrades, transactions reporting and risk intermediation for bilateral transactions when clients look to give them up for client clearing. “It’s a lot like building an institutional prime brokerage model,” added Hitchon.

The ability for clearing brokers to allow clients to benefit from cross-product netting - potentially reducing the overall amount of margin a client has to post to its clearing broker - is unclear, although Hitchon believes there will be opportunities for clients to optimise collateral posting. “There will be a counterpoint in terms of jurisdictional limitations and fungibility of capital, but having the infrastructure to facilitate collateral optimisation will definitely form part of the remit, although my view is it will take a significant amount of work,” he said.

There have been few public announcements of major institutions signing up to buy-side clearing so far, despite regulators having flagged since the financial crisis that all financial institutions would be mandated to clear OTC derivatives. This has created speculation in some quarters that major buy-side firms have been dragging their feet. But according to Hitchon, progress is being made behind the scenes.

“We have already won a significant amount of mandates from big institutional clients,” he said. “The big driver now will be getting regulatory clarity. My view is by next year you’ll see a significant push from OTC derivatives going towards centralised clearing.”

Separately, Roger Naylor will replace Hitchon as co-head of global prime finance, alongside Barry Bausano. Naylor will remain head of global equity derivatives based in London, and Bausano will continue his role as head of global market equities Americas.