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Why Is It Important to Choose the Best Prime Broker or Right Liquidity Provider?

If you are an institutional trader or financial firm that is involved in trades sizes of hundred lots, multiple times a day, you belong to the category of traders who need support from a prime brokerage.

Prime brokerages facilitate large active trading operations for large investors, such as hedge funds, institutional traders, money managers, treasury departments of commercial funds and so on. They offer special services to their clients, which is vital for the success of these firms. Reducing the costs associated with trading is one of the primary goals that all funds share in common. Prime brokerages allow them to achieve just that, in return for a small fee for their services.

Needless to say, your choice of prime brokerage will have a huge impact on your operational efficiency and competency levels. The brokerage will ensure that you can access top liquidity providers at all times, so that your trades are executed instantaneously, your assets are stored in secure accounts, and all margin calls are addressed properly. In short, when you are able to assure the highest level of efficiency for your clients, your brokerage can establish credibility in the market.

Your choice of prime brokerage is important for your firm's long-term viability. But, what are the factors that distinguish a great prime brokerage firm from just a good one? Let's take a look.

Best Price Execution

The best prime brokerages have relationships with tier-1 liquidity providers, such as big banks, investment firms and major ECN service providers, which allows them to offer the best prices to clients. Make sure to compare these prices with what is available in the market. In addition, these prices should be available on industry leading platforms, offered on a 100% Straight Through Processing (STP) basis.

Pricing or liquidity is the most critical factor in choosing a prime brokerage. The tighter the spread, the greater will be the profit margins available for your clients. Having tighter spreads and access to deep liquidity pools will help lower your trading costs and increase competitiveness.

Ultra-Low Latency Execution

It is important to ask your prime broker about their execution model, and whether they offer 100% STP. They should provide a high-speed connection, directly with the trading servers, to allow ultra-low latency execution speeds. This will also enable you to monitor your risks in real time and take steps to prevent negative slippage for your clients. Prime brokerages will provide proprietary trading platforms and FIX API connections for rapid connectivity and integration.

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Complete Transparency

A regulated prime brokerage, in particular, will never try to trade against its clients. You can be sure of complete transparency regarding price feeds, while being able to connect directly to the brokerage servers and place orders and trades directly in the market. Trust is an important factor in establishing a long-term relationship with a prime brokerage. Be sure to ask whether your prime broker offers its liquidity and services to retail clients or not, in which case there could be a major conflict of interest.

Multi-Asset Liquidity

Prime brokerages should offer you deep liquidity across a variety of assets, including forex, commodities, equities and CFDs. It is important for you to be able to gain exposure to diverse financial markets globally, to increase the product offering to your clients.

Every institutional trader will have different needs, based on the focus of the fund, the trading technology and area of expertise. Prime brokers offer an extensive list of personalized services for their clients. At the same time, not all of them specialise in everything. Some offer deep liquidity pools, while others offer services like capital introduction and analytics. Then there are those that specialise in real-time P&L. Consider the needs of your clients or investors, before selecting the prime brokerage to partner with.