

## US

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## New, boutique banks

**B**irds do it, fish do it, and even investment bankers have started to do it. We're talking about migrating.

The current financial crisis, the bank and investment bank failures, the consolidation of investment banks, termination of numerous lines of business at banks and investment banks, an emphasis on reducing leverage and heightening net-capital requirements, a shift away from standalone investment banks to depositary institutions, generally reduced compensation in bonus-based compensation systems, and life under the Tarp have resulted in unprecedented staff reductions and departures in financial institutions and investment banks.

It has been described as the biggest brain drain in the US since Thomas Jefferson left office. So, where are these brains headed?

Until recently, senior investment bankers would often leave their banks with the goal of starting, or joining, a hedge fund. For obvious reasons, this trend is no longer much of a trend. What we are seeing these days is dozens of senior bankers, generally from large investment banks, endeavoring to organise boutique investment banks. If this new trend holds, it may result in changes in the basic US investment banking model and the manner in which many US companies finance.

These boutique investment banks may have great talent, but they are likely to have small balance sheets. This means that they will have good reason to focus both on advisory work and on agency financing methodologies that do not require capital. In advisory work, these boutiques will have the advantage of few conflicts and pricing flexibility. As to financing activities, the use of sales and distribution methodologies, such as PIPE transactions, registered direct offerings (that, unlike underwritings, require no capital) and rights offerings, should go a long way toward leveling the playing field and enabling boutiques to compete for all but the largest financing transactions.

In some respects, the investment banking environment in the US resembles the period during which boutique investment banks like Hambrecht & Quist, Robertson Stephens and Montgomery Securities were born and became market leaders. It looks like we may be witnessing another migration.