

## After Launch of Stock Connect, Hong Kong and China Grow Even More Prominent

2015 Greenwich Leaders: Asian Equities

Q4 2015

The opening of China's stock markets to offshore investors has increased the importance of China and Hong Kong to both brokers and investors in Asian equities.

Commissions on trades of Chinese/Hong Kong equities made up 54% of the total commissions paid by institutional investors to brokers on trades of Asian equities for the 12 months ended Q3 2015—up from 46% in the same period for 2014. China A-shares saw the largest net gain, increasing from 10% to 15% of spend, while Hong Kong still dominates at 39%.

“The launch of Stock Connect, which linked the Shanghai Stock Exchange to the Hong Kong Stock Exchange in later 2014, facilitated the flow of offshore investment capital into domestic China shares and triggered explosive growth in equity trading activity in Hong Kong and China,” says Greenwich Associates consultant John Feng.

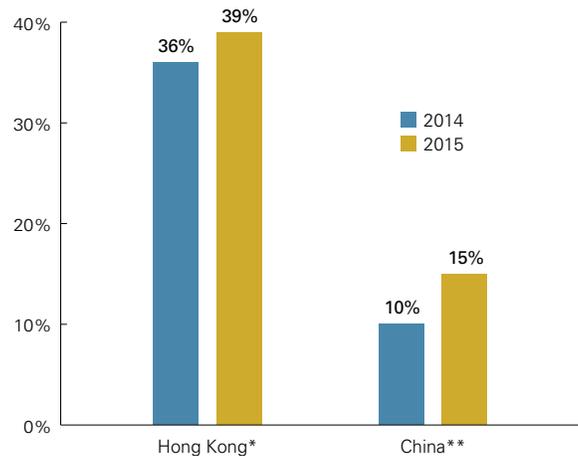
This growth, and the potential for continued expansion of institutional investment and trading activity in Chinese equities, has increased the importance of the already critical Hong Kong and China markets to Asian equity brokers.

“Given that these markets now represent nearly half of all institutional commission payments in Asian equities, any broker looking to establish a meaningful presence here must deliver strong coverage in these two markets,” says Greenwich Associates consultant Jay Bennett. “Every one of the 2015 Greenwich Leaders in Asian Equities offers robust execution capabilities in Hong Kong and China and strong research platforms in Hong Kong and, to a lesser extent, Chinese equities.”

The list of 2015 Greenwich Share Leaders in Asian Equity Trading and Research/Advisory Services reveals a highly competitive market featuring a tightly grouped collection of brokers fighting hard for every percentage point of share. Bank of America Merrill Lynch leads in Asian Equity Trading with a share of 9.5%, followed by UBS, Morgan Stanley and Credit Suisse, which are statistically tied with shares of 8.5%–8.8%, and CLSA Asia-Pacific Markets and Citi, which are tied at 7.5%–7.8%. The 2015 Greenwich Quality Leaders in Asian Equity Sales Trading & Execution Service are Bank of America Merrill Lynch, Morgan Stanley and UBS.

Credit Suisse tops the list of 2015 Greenwich Share Leaders in Asian Equity Research/Advisory Services with an advisory vote share of 9.1%, followed by Bank of America Merrill Lynch and Morgan Stanley, which are statistically tied at 8.3%–8.6%, CLSA Asia-Pacific Markets at 7.9%, and the trio of UBS, Citi and Deutsche Bank, which are tied at 6.4%–6.6%.

### Asian Equity Commission Allocation: Hong Kong and China



Note: \*Including H shares. \*\*Excluding H shares and other offshore-listed shares. Based on 42 responses from Hong Kong and Singapore-based-institutions in 2014 and 43 in 2015. Source: Greenwich Associates 2015 Asian Equity Investors Study

The 2015 Greenwich Quality Leaders in Asian Equity Research Product & Analyst Service are Bank of America Merrill Lynch, Credit Suisse and Morgan Stanley.

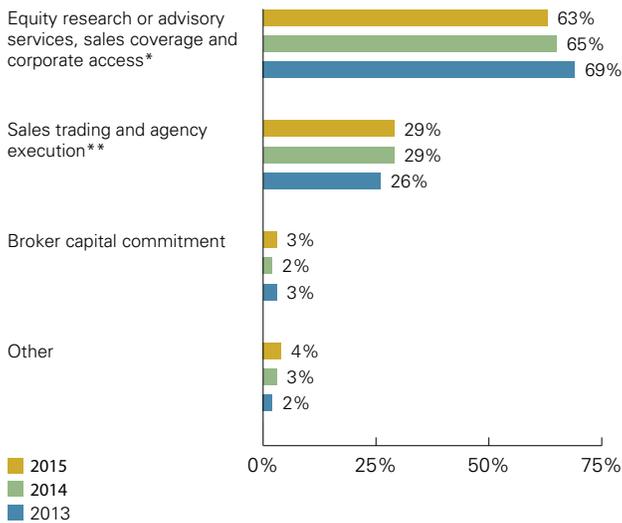
### Corporate Access Drives Growing Share of Research Commissions

Sixty-three percent of commissions paid by institutions to brokers on trades of Asian equities are generated by investors compensating brokers for the provision of research and advisory services, with 29% attributable to trade execution. Unlike the European stock market, where regulators have clamped down on investors' use of equity trade commissions to reward brokers who provide access to company management teams, Asian institutions are increasing the share of total commissions used for corporate access.

In Asia, about 30% of research/advisory commission payments are used to compensate brokers for direct access to company management teams and/or for invitations to conferences that often include opportunities to meet face-to-face with companies. In the United Kingdom, for European equities that share has dropped to less than 10%. “Of course, institutional investors in the U.K. still assign a high value to corporate access provided by brokers, which suggests that the function still plays a role in their commission allocation decisions, even if it's not labeled as such,” says Jay Bennett. “In Asia, the process is more transparent and above-board.”

## Allocation of Commissions for Research/Advisory vs. Execution

Asian Institutions — Asian Traders



Note: Based on 100 trader respondents in 2013, 99 in 2014 and 104 in 2015.

\*Including the research portion of CSA arrangements. \*\*Includes price improvement, market impact, etc. and the execution portion of commission sharing arrangements.

Source: Greenwich Associates 2015 Asian Equity Investors Study

The 2015 Greenwich Quality Leaders in Asian Equity Sales & Corporate Access are Bank of America Merrill Lynch, CLSA Asia-Pacific Markets and Credit Suisse.

## Little Momentum for Electronic Trading

The Asian market differs from other equity markets around the world in another important way: Electronic trading is much less important here than it is in Japan, Europe or the United States. Approximately two-thirds of Asian equity trading volume is still executed through traditional “high-touch” trades facilitated by broker sales traders, with the remaining third of trading volume done through “low-touch” electronic channels. That ratio was unchanged from 2014 to 2015 and is not expected to change materially in the next three years.

By comparison, in Japan 60% of trading volume is executed through low-touch trades. Institutions’ attachment to high-touch trading reflects the unique characteristics of the Asian equity market, including the fact that the market contains heterogeneous country markets with differing characteristics and regulations, and the presence of many small- and mid-cap stocks with limited liquidity.

For brokers, the continued popularity of high-touch trading in Asia means that—unlike in other markets—it’s possible to build a strong franchise without a leading electronic

## Greenwich Share Leaders — 2015



### Asian Equity Trading Share<sup>1,2</sup>

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	9.5%	1
UBS	8.8%	2T
Morgan Stanley	8.6%	2T
Credit Suisse	8.5%	2T
CLSA Asia-Pacific Markets	7.8%	5T
Citi	7.5%	5T

### Asian Equity Algorithmic Trading Share<sup>3</sup>

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	14.1%	1
UBS	13.0%	2T
Morgan Stanley	12.1%	2T
Citi	10.5%	4T
Credit Suisse	10.2%	4T

### Asian Equity Research/Advisory Vote Share<sup>1</sup>

Broker	Vote Share	Statistical Rank
Credit Suisse	9.1%	1
Bank of America Merrill Lynch	8.6%	2T
Morgan Stanley	8.3%	2T
CLSA Asia-Pacific Markets	7.9%	4
UBS	6.6%	5T
Citi	6.5%	5T
Deutsche Bank	6.4%	5T

### Options & Volatility Product Coverage — Asia<sup>4</sup>

Broker	Important Relationships	Statistical Rank
Morgan Stanley	74%	1
Goldman Sachs	62%	2T
Bank of America Merrill Lynch	59%	2T
UBS	56%	2T
Deutsche Bank	47%	5T
BNP Paribas	44%	5T
Citi	41%	5T

Note: Top 5 leading brokers cited including ties. <sup>1</sup>Weighted by commission spend of accounts. Vote share and trading share represent a broker’s relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community. Based on interviews with 221 respondents at Asia Pacific institutions for Asian Equity Research/Advisory Vote Share (portfolio managers) and 125 for Equity Trading Share (traders). <sup>2</sup>Equity Trading encompasses sales trading, execution, sector trading, and electronic trading. <sup>3</sup>Based on 88 respondents. Broker share is weighted by overall commission size of institutions and buy-side traders’ allocation by rank. Algorithmic/SOR Trading share is weighted by overall Algorithmic/SOR commissions paid by institutions’ and buy-side traders’ allocation by rank. <sup>4</sup>Includes top 5 relationship citations, distinctive service evaluations and any mention for transactions in specific options & volatility products: listed and listed look-alike options across single-stock, index, custom baskets, and variance/volatility swaps, dispersion/correlation trades and “lite exotics”/structured flow options. Based on interviews with 34 respondents at buy-side institutions.

Source: Greenwich Associates 2015 Asian Equity Investors and Equity Derivatives Studies

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## 2015 Greenwich Quality Leaders — Asian Cash Equities and Equity Derivatives



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### Asian Equity Sales Trading & Execution Service Quality<sup>1</sup>

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#### Broker

Bank of America Merrill Lynch  
Morgan Stanley  
UBS

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### Asian Equity Research Product & Analyst Service Quality<sup>2</sup>

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#### Broker

Bank of America Merrill Lynch  
Credit Suisse  
Morgan Stanley

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### Asian Equity Sales & Corporate Access Quality<sup>2</sup>

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#### Broker

Bank of America Merrill Lynch  
CLSA Asia-Pacific Markets  
Credit Suisse

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### Options & Volatility Product Coverage Quality — Asia<sup>3</sup>

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#### Broker

Bank of America Merrill Lynch  
BNP Paribas  
Goldman Sachs  
Morgan Stanley

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Note: Leading brokers are shown in alphabetical order. <sup>1</sup>Based on 125 respondents. <sup>2</sup>Based on 221 respondents. <sup>3</sup>Based on 34 respondents.  
Sources: 2015 Greenwich Associates Asian Equity Investors and Equity Derivatives Studies

trading platform. “While brokers can still capture some business through electronic trading, the bulk of trading volume and commission payments are won and lost on the basis of strong advisory coverage and high-touch sales trading coverage that provides liquidity, execution service and valuable market color,” says John Feng.

### Equity Derivatives

Institutional trading volumes in Asian equity options and volatility products are driven by two factors: pricing and the quality of broker sales relationship. Largely on the basis of those two factors, approximately three-quarters of institutions active in these products use Morgan Stanley as an important broker, followed by Goldman Sachs, Bank of America Merrill Lynch and UBS, which are statistically tied with penetration scores of 56%–62%, and Deutsche Bank, BNP Paribas and Citi, which are tied at 41%–47%. These firms are the 2015 Greenwich Share Leaders in Asian Options & Volatility Product Coverage.

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*Consultants Jay Bennett and John Feng advise on the institutional equity markets in Asia.*

### Methodology

*Between July and September 2015, Greenwich Associates conducted interviews with 221 Asian equity fund managers and analysts, 125 traders and 45 users of equity derivative products at institutions based in Asia. Interview topics included overall market trends, compensation and broker relationships.*

*The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.*

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