

2013 Greenwich Leaders: Asian Equities and Equity Derivatives

Q1 2014

Brokers Compete for Share of Growing Asian Equity Business

The Asian equity market is attracting fierce competition from a large and diverse group of brokers looking to capture a share of the region's recovering institutional research and trading business.

Bank of America Merrill Lynch, CLSA, Deutsche Bank and Morgan Stanley are tied as the top research/advisory providers in Asian equities, with each firm capturing a commission-weighted vote share of 8.3–8.9%. Credit Suisse and Citi are next, tied with vote shares of 7.3–7.7%. These firms are the 2013 Greenwich Share Leaders in Asian Equity Research and Advisory Services.

“What is most notable about this market is the tight grouping of brokers not just among a small handful of firms, but down to the top 10 brokers,” says Greenwich Associates consultant Jay Bennett, whose comments are based on the results of Greenwich Associates research among 225 institutions active in Asian equities in Hong Kong, Singapore, China, Korea, Taiwan, and India.

The Asian market supports this large and evenly matched universe of brokers due to the heterogeneous nature of the region. Institutions in Asia use an average of 20 brokers for research covering the region's individual country markets, the many large-cap and small/mid-cap names that make up each market, and the sectors that span the region. From the perspective of the sell-side, this diversity provides brokers with opportunities to carve out specialized niches in sectors, regions and countries.

Institutions' need for dedicated research drives brokerage revenues. The reason: More so than in other markets, market share in research provision and trading are highly correlated in Asia. Approximately 65–70% of institutional brokerage commission payments in Asia are used to cover the costs of research and advisory services, and the bulk of those commissions are paid directly to brokers executing trades. “In Europe and the United States, wide adoptions of commission sharing arrangements (CSAs) have eroded the correlation between research and trading by providing an alternative means for rewarding research providers,” says Greenwich Associates consultant John

Greenwich Share Leaders — 2013



Asian Equity Research/Advisory Share¹

Broker	Vote Share	Statistical Rank
Bank of America Merrill Lynch	8.9%	1T
CLSA Asia-Pacific Markets	8.9%	1T
Deutsche Bank	8.6%	1T
Morgan Stanley	8.3%	1T
Credit Suisse	7.7%	5T
Citi	7.3%	5T

Asian Equity Trading Share¹

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	9.1%	1T
CLSA Asia-Pacific Markets	9.0%	1T
Credit Suisse	8.6%	3T
Morgan Stanley	8.3%	3T
UBS	8.2%	3T

Options & Volatility Product Coverage — Asia²

Broker	Important Relationships	Statistical Rank
Morgan Stanley	68%	1T
Goldman Sachs	64%	1T
Bank of America Merrill Lynch	62%	1T
Deutsche Bank	57%	4
Citi	49%	5T
BNP Paribas	47%	5T
Credit Suisse	47%	5T
UBS	47%	5T
Nomura Securities	45%	5T

Note: ¹Weighted 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 272 respondents at buy-side institutions for Asian Equity Research/Advisory Vote Share (portfolio managers) and 122 for Equity Trading Share (traders). ²Includes 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 47 respondents at buy-side institutions. VSource: Greenwich Associates 2013 Asian Equity Investors and Equity Derivatives Studies

2013 Greenwich Quality Leaders — Equities and Equity Derivatives



Asian Equity Sales Quality

Broker

Bank of America Merrill Lynch
CLSA Asia-Pacific Markets

Asian Equity Trading Quality

Broker

CLSA Asia-Pacific Markets
Morgan Stanley

Asian Equity Research & Analyst Service Quality

Broker

CLSA Asia-Pacific Markets

Options & Volatility Product Coverage Quality — Asia

Broker

Morgan Stanley
Nomura Securities
UBS

Note: Based on 272 respondents for Asian Equity Research and Analyst Service Quality and Sales Quality, 122 for Trading Quality, and 47 for Options & Volatility Product Coverage Quality. Sources: 2013 Greenwich Associates Asian Equity Investors and Equity Derivatives Studies

Feng. “But in Asia only about 40% of institutions use CSAs, and the practice is not expanding very rapidly.”

As a result, institutions’ trade allocations generally track relatively closely with their research use. As in research, Bank of America Merrill Lynch and CLSA each claim a share of the market lead in trading (including both high-touch and electronic execution) with trading shares of approximately 9.0%. Credit Suisse, Morgan Stanley and UBS tie for the next spot, with trading shares of 8.2–8.6%. These firms are the 2013 Greenwich Share Leaders in Asian Equity Trading. As in research, the gap between the trading shares of these firms and brokers at the lower end of the top 10 is narrow relative to that found in other markets.

The 2013 Greenwich Quality Leader in Asian Equity Research is CLSA, and the 2013 Greenwich Quality Leaders in Asian Equity Sales are Bank of America Merrill Lynch and CLSA. The 2013 Greenwich Quality Leaders in Asian Equity Trading are CLSA and Morgan Stanley.

Equity Derivatives

Institutions most often use Morgan Stanley, Goldman Sachs and Bank of America Merrill Lynch as brokers on trades of Asian Equity Options and Volatility Products, followed by Deutsche Bank and then four firms tied for the next spot: Citi, BNP Paribas, Credit Suisse, UBS and Nomura Securities. These firms are the 2013 Greenwich

Share Leaders in Asian Equity Option and Volatility Products. The 2013 Greenwich Quality Leaders in these products are Morgan Stanley, Nomura, and UBS, reflecting their overall capabilities across options trading, sales, and research. “Trading prowess drives the options business in Asia, and the leading firms in this market are strong in both index options, which make up the bulk of trading volume, and single-stock options,” says John Feng.

Consultants John Feng, Jay Bennett and Fion Tan advise on the institutional equity markets in Asia.

Methodology

Between July and September 2013 Greenwich Associates conducted interviews with 272 Asian equity fund managers and analysts, 122 traders and 47 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.

© 2014 Greenwich Associates, LLC. All rights reserved. Javelin Strategy & Research is a subsidiary of Greenwich Associates. No portion of these materials may be copied, reproduced, distributed or transmitted, electronically or otherwise, to external parties or publicly without the permission of Greenwich Associates, LLC. Greenwich Associates®, Competitive Challenges®, Greenwich Quality Index®, Greenwich ACCESS™, and Greenwich Reports® are registered marks of Greenwich Associates, LLC. Greenwich Associates may also have rights in certain other marks used in these materials.

The Greenwich Quality LeaderSM and Greenwich Share LeaderSM designations are determined entirely by the results of the interviews described above and do not represent opinions or endorsements by Greenwich Associates or its staff. Such designations are a product of numerical scores in Greenwich Associates’ proprietary studies that are generated from the study interviews and are based on a statistical significance confidence level of at least 80%. No advertising, promotional or other commercial use can be made of any name, mark or logo of Greenwich Associates without the express prior written consent of Greenwich Associates.



6 High Ridge Park Stamford CT 06905 USA

Tel: +1 203.625.5038/+1 800.704.1027

Fax: +1 203.625.5126

email: ContactUs@greenwich.com

www.greenwich.com