

2013 Greenwich Leaders: Japanese Equities and Equity Derivatives

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As institutions pick up the pace of their trading activity in a revived Japanese equity market, they are calling on the services of a brokerage industry that changed significantly during the market's extended lull.

Over the past several years, some of the large foreign brokers that compete in Japan's equity market cut back on the resources they commit to this business. This retrenchment — and the corresponding recalibration of client coverage — was the result of both a long-term slump in

Japanese equities and considerable cost required to maintain a full-fledged equities platform that caused some to view the market as decreasing in importance. This viewpoint was reinforced by the fact that some institutional investors were starting to demand less dedicated Japanese research coverage and instead turning towards broader Asian coverage.

During much of that time, however, several domestic Japanese brokers moved in the opposite direction by

2013 Greenwich Share Leaders — Equities



Japanese Equity Research/Advisory Vote Share

Broker	Vote Share	Statistical Rank
Nomura Securities	13.8%	1
Daiwa Securities	9.6%	2
Mizuho Securities	8.8%	3T
SMBC Nikko Securities	8.4%	3T
Morgan Stanley	7.6%	5T
Mitsubishi UFJ Morgan Stanley Securities	7.5%	5T

Japanese Equity Trading Share

Broker	Trading Share	Statistical Rank
Nomura Securities	10.8%	1
Daiwa Securities	9.0%	2
Morgan Stanley	7.6%	3T
UBS	7.6%	3T
Mitsubishi UFJ Morgan Stanley Securities	7.3%	3T

Note: 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 166 respondents at buy-side institutions for Japanese Equity Research/Advisory Vote Share (portfolio managers) and 139 for Equity Trading Share (traders). Source: Greenwich Associates 2013 Japanese Equity Investors Study

2013 Greenwich Quality Leaders — Equities and Equity Derivatives



Japanese Equity Sales Quality

Broker

Nomura Securities

Japanese Equity Research & Analyst Service Quality

Broker

Nomura Securities

Japanese Equity Trading Quality

Broker

Nomura Securities

Options & Volatility Product Coverage Quality — Japan

Broker

Bank of America Merrill Lynch

BNP Paribas

Morgan Stanley

Futures Quality — Japan

Broker

Mizuho Securities

Note: Based on 166 respondents for Research and Analyst Service Quality and Sales Quality, 138 for Trading Quality, 48 for Options & Volatility Product Coverage Quality, and 89 for Futures Quality. Sources: 2013 Greenwich Associates Japanese Equity Investors and Equity Derivatives Studies

investing in their equities business and expanding their coverage teams. This bet has paid off with the resurgence in trading activity brought on by the Abe stimulus plan over the past year. As trading volumes jumped, so too did the market shares of these Japanese brokers. The top five domestic Japanese equity brokers increased their aggregate vote share in research and advisory services by 8.5 percentage points over the 12-month period covered in the research. Even more impressively, Mizuho Securities and SMBC Nikko Securities each gained four percentage points or more of vote share in Japanese equity research and advisory services during this period. “For one firm to win four points of share in a single year in any market is unusual,” says Greenwich Associates consultant John Feng. “For two firms to do it is nearly unprecedented.”

It is important to note that domestic firms’ gains in trading have not been as pronounced. Although many global firms have either reduced resources or experienced unwanted turnover in research and advisory services, they still compete aggressively for trading business. Some are helped in this effort by their larger-scale and well-established electronic trading systems, which have provided global firms with a boost as institutions increase the share of trading business executed through electronic channels. In addition, foreign firms also remain strong competitors to domestic brokers in derivatives trading, which, as a more specialized business requires less in the way of resources and headcount.

Cash Equities

In research and advisory services, however, the domestic firms dominate. Nomura Securities leads all competitors with a 13.8% commission-weighted share of research/advisory vote by institutions, followed by Daiwa Securities at 9.6% and Mizuho and SMBC Nikko Securities, which are statistically tied with vote shares of 8.4–8.8%. Rounding out the top tier is Mitsubishi UFJ Morgan Stanley Securities, which is tied with the sole foreign broker in this group —

Morgan Stanley — at a share of 7.5–7.6%. These firms are the 2013 Greenwich Share Leaders in Japanese Equity Research and Advisory Services.

Nomura is also the clear leader in cash equity trading, with an estimated trading share of 10.8%. Second is Daiwa Securities at 9.0%, followed by Morgan Stanley, UBS and Mitsubishi UFJ Morgan Stanley Securities, which are statistically tied with trading shares of 7.3–7.6%.

Nomura’s leading position is driven in large part by its broad coverage of domestic and foreign investors as well as the superior service quality the firm delivers to institutional clients. Every year, Greenwich Associates asks the domestic and foreign institutions participating in our Japanese equity research to name the brokers they use and to rate them in a series of service quality categories. Firms that receive scores that top those of competitors by a statistically significant margin are named Greenwich Quality Leaders. Nomura Securities is the 2013 Greenwich Quality Leader in Japanese Equity Sales, Research & Analyst Service and Trading.

Equity Derivatives

Nomura also leads in terms of market penetration in Japanese equity futures, followed by five brokers statistically tied for second place: Daiwa Securities, Goldman Sachs, Morgan Stanley, Mizuho Securities, and Mitsubishi UFJ Morgan Stanley Securities. These firms are the 2013 Greenwich Share Leaders in Futures Market Penetration. The 2013 Greenwich Quality Leader in Futures is Mizuho Securities.

In Japanese equity options and volatility products, three firms tie for the lead spot in market penetration — Goldman Sachs, Morgan Stanley and Nomura — and three firms tie for fourth place — Bank of America Merrill Lynch, Deutsche Bank, and J.P. Morgan. These firms are the 2013 Greenwich Share Leaders in Options & Volatility Product

2013 Greenwich Share Leaders — Equity Derivatives



Options & Volatility Product Market Penetration — Japan¹

Broker	Market Penetration	Statistical Rank
Goldman Sachs	56%	1T
Nomura Securities	54%	1T
Morgan Stanley	50%	1T
Bank of America Merrill Lynch	42%	4T
Deutsche Bank	42%	4T
J.P. Morgan	42%	4T

Futures Market Penetration — Japan²

Broker	Market Penetration	Statistical Rank
Nomura Securities	56%	1
Daiwa Securities	34%	2T
Goldman Sachs	34%	2T
Mitsubishi UFJ Morgan Stanley Securities	34%	2T
Mizuho Securities	34%	2T
Morgan Stanley	33%	2T

Note: ¹Includes top 5 relationship citations, distinctive service evaluations and any mentions for transactions in specific options & volatility products: listed & listed look-alike options across single-stock, index, custom buckets, ETFs, dividends & variance/volatility swaps & vanilla dispersion/correlation trades. Based on interviews with 48 respondents. ²Includes top 5 relationship citations, distinctive service evaluations, and any mentions for transactions in futures products, including index or single-stock futures, and if applicable sector or dividend futures. Based on interviews with 89 respondents. Source: Greenwich Associates 2013 Japanese Equity Derivatives Study

Market Penetration. The 2013 Greenwich Quality Leaders in Options & Volatility Product Coverage are Bank of America Merrill Lynch, BNP Paribas and Morgan Stanley.

Greenwich consultants John Feng, Tomio Sumiyoshi and Taeko Sumiyoshi advise on the Japanese institutional equity market.

Methodology

Greenwich Associates conducted interviews with 166 equity portfolio managers, 139 equity traders and 137 equity derivatives users across domestic Japanese institutions, foreign subsidiaries in Japan and offshore institutions in Asia/Pacific about market trends and broker relationships in the Japanese market. Interviews were conducted from July to September 2013.

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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