

Global Stock Markets Await European Regulatory Resolution

2015 Greenwich Share and Quality Leaders: European Equities

Q3 2015

Despite the recent wild gyrations in global stock markets, 2015 could represent the calm before the storm for European equity brokers. They are awaiting word from regulators on new “unbundling” rules that could upend the economics of their business.

The competitive landscape of the European brokerage market has been in flux since the onset of the global financial crisis, driven by changes in regulation, market structure and in the balance sheets and business strategies of global banks. These changes could accelerate when European regulators announce their final decision on new rules limiting and possibly even prohibiting the use of client commissions to pay for equity research and advisory services.

“For now, the industry has settled into a holding pattern as banks wait until the rules of the game are set,” says Greenwich Associates consultant John Colon.

This year’s market volatility has provided brokers with some relief in the form of an upsurge in trading volumes

and commission revenues following an extended period of stagnation and decline. Looking ahead, however, many brokers and buy-side firms are convinced that the new rules on the use of client commissions in MiFID II will reduce the amount of research consumed by institutional investors. A recent white paper from Greenwich Associates, *A Brave New World for Asset Managers—and the Brokers Who Serve Them*, reports that even investors in North America believe such rules would have a significant negative impact—even if regulators stop short of full “unbundling.”

Greenwich Share Leaders

Brokers’ uncertainty about the future of the equity research business might explain why no fewer than five firms are currently deadlocked atop the market for European equity research/advisory services. With commission-weighted vote shares that are statistically tied between 7.2% and 7.8%, UBS, Deutsche Bank, Bank of America Merrill Lynch, Morgan Stanley and J.P. Morgan

Greenwich Share Leaders — 2015



European Equity Research/Advisory Vote Share¹

| Broker | Vote Share | Statistical Rank |
|-------------------------------|------------|------------------|
| UBS | 7.8% | 1T |
| Deutsche Bank | 7.4% | 1T |
| Bank of America Merrill Lynch | 7.4% | 1T |
| Morgan Stanley | 7.4% | 1T |
| J.P. Morgan | 7.2% | 1T |

European Equity Trading Share¹

| Broker | Trading Share | Statistical Rank |
|-------------------------------|---------------|------------------|
| UBS | 9.8% | 1 |
| Bank of America Merrill Lynch | 8.9% | 2 |
| J.P. Morgan | 8.6% | 3T |
| Credit Suisse | 8.2% | 3T |
| Deutsche Bank | 8.0% | 3T |

European Equity Algorithmic Trading Share²

| Broker | Algorithmic Trading Share | Statistical Rank |
|-------------------------------|---------------------------|------------------|
| UBS | 14.9% | 1 |
| Credit Suisse | 12.0% | 2 |
| Bank of America Merrill Lynch | 9.0% | 3T |
| ITG | 8.5% | 3T |
| Deutsche Bank | 7.6% | 5T |
| J.P. Morgan | 7.1% | 5T |
| Morgan Stanley | 6.8% | 5T |

Note: ¹Based on responses from 198 European respondents at buy-side institutions for Equity Research/Advisory Vote Share and European Equity Trading Share, both weighted by commission spend of accounts. Greenwich Associates Research/Advisory 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. ²Based on 131 respondents. Important algorithmic or smart-order-routing trading provider includes those cited as a top 10 provider in order of commission volume for algo trading (including dark pool sourcing algos) or SMO routing trades, or as distinctive on any algorithmic factor. Top five leading brokers are cited including ties.

Source: Greenwich Associates 2015 European Equity Investors Study



European Equity Sales & Corporate Access Quality

Broker

Exane BNP Paribas
UBS

European Equity Research & Analyst Service Quality

Broker

Exane BNP Paribas
Morgan Stanley
UBS

European Equity Sales Trading & Execution Service Quality

Broker

Bank of America Merrill Lynch
UBS

European Equity Electronic Trading Quality

Broker

ITG
UBS

Note: Based on 198 respondents for Sales & Corporate Access Quality and Research & Analyst Service Quality, 185 for Sales Trading & Execution Service Quality and 147 for Electronic Trading Quality. Leading brokers are displayed in alphabetical order.
Source: Greenwich Associates 2015 European Equity Investors Study

all claim a top spot on the list of 2015 Greenwich Share Leaders in European Equity Research/ Advisory Services.

“Consistency over time and the breadth of coverage across markets and sectors play a big role in determining the weighted vote share in sales and research commission allocations,” says Greenwich Associates consultant Jay Bennett. “Over the past several years, however, there has been a significant shift in the sell side’s view of the economics of this business, which has, in turn, led to a “right-sizing” of research and sales platforms based on perceived revenue opportunities.”

In the European equity trading business (encompassing high-touch and low-touch business), UBS leads with a commission share of 9.8%, followed by Bank of America Merrill Lynch at 8.9% and the trio of J.P. Morgan, Credit Suisse and Deutsche Bank, which are statistically tied with shares between 8.0% and 8.6%. These firms are the 2015 Greenwich Share Leaders in European Equity Trading.

UBS tops the market in algorithmic trading with an estimated commission share of 14.9%, followed by Credit Suisse at 12.0%, Bank of America Merrill Lynch and ITG, which are statistically tied with shares between 8.5% and 9.0%, and the trio of Deutsche Bank, J.P. Morgan and Morgan Stanley, which are tied with market shares between 6.8% and 7.6%. These firms are the 2015 Greenwich Share Leaders in European Equity Algorithmic Trading.

Greenwich Quality Leaders

Greenwich Quality Leaders are firms whose institutional clients award them with quality ratings that top those of competitors by a statistically significant margin. The 2015 Greenwich Quality Leaders in European Equity Sales & Corporate Access are Exane BNP Paribas and UBS. The 2015 Greenwich Quality Leaders in European Equity

Research & Analyst Service are Exane BNP Paribas, Morgan Stanley and UBS. Bank of America Merrill Lynch and UBS are the 2015 Greenwich Quality Leaders in European Equity Sales Trading & Execution Service.

Electronic trading now accounts for about 15% of the commissions brokers generate on trades of European equities. Brokers able to “punch above their weight” in terms of their share in trading relative to the size and reach of their research franchise often do so because they have invested heavily in their electronic trading platforms and algorithmic trading. Generally, these are large global firms with the resources needed to develop and support these costly platforms. ITG and UBS claim the title of 2015 Greenwich Quality Leaders in European Equity Electronic Trading.

Consultants Jay Bennett, John Colon and John Feng advise on the institutional equity markets globally.

Methodology

From March to May 2015, Greenwich Associates interviewed 198 portfolio managers and 185 traders at European institutions about the research, sales and trading services they receive from their brokers. These portfolio managers and traders were also asked about current market practices, trends and compensation.

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