



**OPERATIONAL
PERFORMANCE OF BROKERS
Market Survey
Asia Securities
2005**

Summary of Findings

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1. Introduction

1.1 Scope of Study

This document is a summary of the report of the Operational Performance of Brokers - Market Survey - Asian Securities 2005 carried out by Z/Yen Limited for a consortium of 8 major Banks.

The study was performed based on individual interviews using a structured questionnaire, as developed by Z/Yen and the participating Banks (the Brokers). 36 leading Investment Managers (the Clients) were interviewed between September and November 2005.

The Sponsoring Brokers were as follows:

- ABN AMRO
- CSFB
- Deutsche Bank
- JP Morgan
- Merrill Lynch
- Morgan Stanley
- Royal Bank of Scotland
- UBS

A list of the Clients interviewed can be found in section 5.

1.2 Approach

The approach adopted for this study was to:

- Z/Yen set up and facilitated a series of workshops with the Banks to agree and finalise scope, structure, format and questions;
- The Banks selected the Clients who they wished to be interviewed and introduced Z/Yen to senior operations personnel;
- Z/Yen performed the interviews and documented responses and additional comments;
- Z/Yen published the findings and presented these to the Banks.

1.3 Confidentiality of Results

The Clients and the Banks provided information and comments on the basis that all data is non-attributable and have requested Z/Yen to take the following steps to ensure that confidentiality of results is maintained.

- Reports have been produced individually showing ranking data for all Banks but with only one set of data identified, e.g., Banks will see their own ranked data but will not be able to identify data belonging to other Banks.
- Banks can see individual rankings from Clients where the Client has specifically agreed for this ranking information to be shared.

2.1 Executive Summary - Overall Summary of Findings

2.1.1 Background

36 clients completed the survey between 27th September and 30th November 2005. 21 of these were nominated to participate as equity clients and 17 as fixed income clients (2 clients were nominated as both). Where a client nominated for only one product responded to the whole survey, all data provided was captured and included in the results.

Of the equity clients, 10 were located in Singapore, 7 in Hong Kong and 4 in Australia. On the fixed income side, 6 clients were located in Singapore, 5 in Japan, 3 in China, 2 in Korea and 1 in Taiwan.

Whereas the institutions nominated to participate as equity clients were almost exclusively asset managers (with one hedge fund), the organisations nominated as fixed income clients were much more diverse, including private banks, corporate banks, insurers, asset managers and one trust bank.

2.1.2 Key Messages

While the views and priorities of individual clients varied, depending to some extent on their location, some common themes emerged. The key messages are summarised below.

- A. Increased base level of satisfaction:** Although the average marks for the top performing brokers were little changed from 2004, the average marks for the lowest ranked brokers were significantly higher. As a result, there were often relatively small divides between high and low ranked brokers, particularly for equities. This reflected a common view that, in general, all of the sponsoring brokers are highly competent in providing operations services.
- B. Equities processing was generally highly automated, but improvements could still be made:** A majority of clients matched the bulk of their equities trades automatically via OASYS, CTM or IRESS. Suggestions for improvements in broker processing often focussed on effective management of change; ensuring that new or changed client account details were updated in all systems and offices before the first trade and assisting clients in identifying process revisions imposed by changes in market practice.
- C. Fixed income processing was often very manual - more automation was sought but with no common direction:** For Hong Kong or Singapore based clients, where fixed income processing remained manual, this was often the result of a cost-benefit based decision, with low trade volumes being the primary reason to continue with faxed confirms. Interestingly, one Singaporean client wanted brokers to take the lead in making CTM matching standard market practice before committing to this technology.

Elsewhere, numerous clients wished to increase the automation of their fixed income processing, but with no common view of how to do this. Several Chinese and Japanese clients were considering requesting Swift confirms or daily files of trade details from their banks/brokers. One Australian client was frustrated that CTM or OASYS had not yet gained ground in the local market and wanted brokers to begin driving towards more automated processing.

- D. Operational standards are expected to tighten further:** The large majority of clients had minimum operational standards to which they expected brokers to adhere. Most at least expected to match equity confirms on trade date while some had set much tougher standards, demanding confirmations to be received within one hour, 30 minutes or, in one case, 15 minutes of trade for selected accounts.

More clients had also begun to expect same day fixed income confirms although none had defined tighter standards than for equities. A number felt obliged to adopt more relaxed standards for fixed income due either to the reliance on faxed confirms or the booking of trades in Europe.

A significant minority of clients were considering tightening standards in the coming year, either in response to demand from their own clients or having realised that broker performance often significantly exceeded their current minimum standards.

- E. Increased monitoring of broker performance:** Less than half of clients maintained management information on broker performance. However, several indicated that they planned to begin compiling statistics during the coming year while one would consider using statistics purchased from OMGEO. One client said that *"we will use this survey as a catalyst to start measuring brokers more quantitatively in the next year"*

A number of clients who did not maintain statistics felt that within their small team they could effectively track broker performance without the need for formal maintenance of detailed MIS.

- F. Client service is expected to be proactive, available, communicating well and have clearly defined responsibilities; but most of all, needs to focus on effective core processing:** Many suggestions for improved client service focussed on the handling of issues. A number of clients wanted more clarity over who would be responsible for resolving their problems and felt that clear allocation of responsibility resulted in improved service.

Clients also often remarked that client service staff should always be available when needed and be proactive in identifying, communicating and addressing issues before the client. But when asked about client service excellence, respondents often stressed the importance of smooth processing of core business - timely and accurate confirms and avoidance of settlement issues.

- G. CRMs were required to be an effective escalation point, co-ordinate well between offices and be able to drive change in their organisation:** The most commonly stated requirements of a CRM reflected an expectation of management capabilities. Clients required that a CRM should be effective in ensuring that problems escalated to them were resolved, be able to co-ordinate client service across offices (especially to ensure that changing client requirements were well understood by all), and be able to drive change in their organisations.

While clients did not necessarily expect that a CRM would be able to single-handedly effect change, it was expected that they should have access to senior management and lobby effectively on the client's behalf. In contrast a small number clients saw no role for a CRM and simply wanted day-to-day contact with the client service staff processing their business.

- H. Clients required advice on changing market practice:** One of the most frequent themes for equity clients was the difficulties that they experienced due to shifting practice in some of the region's markets; changes in India and Malaysia were cited as prime examples of this, but one also mentioned changes in Singaporean GST regulations. A number of clients had experienced processing issues as a result of these changes and wanted brokers' client service and relationship management staff to be more proactive in informing them of relevant issues and guiding them on the impact to their processes.

- I. Effective tracking of client accounts, settlement instructions and tailored requirements is required:** Clients expressed frustration that a number of brokers made errors on new or changed accounts. Several said that they had informed brokers of the relevant details, but when the first trade was made, local client staff did not have the correct settlement instructions or were not aware that the new account existed. These clients asked that CSs and CRMs be more proactive in ensuring that all of their offices receive and action their information updates.

One client commented that "*We treat brokers as partners. But we need them to understand our requirements and be able to forward them to all local offices and then ensure that they are carried out*".

- J. Frustration over inability to access global trades:** A common client complaint focussed on the restrictions that broker technology and/or organisation structures placed upon support for their global trading. This was a particular issue with fixed income where a significant number of trades were booked in either London or New York. Often, even proactive local CS staff were not able to assist where problems occurred and it was necessary either to wait until the respective office had opened, or in one case, to wake up a trader in New York. One client remarked that "*although these issues are not common, when they happen it is such a disaster that no-one forgets quickly*".

Another client pointed out that this lack of global access was a particular problem for 'timezone disadvantaged' Asia Pacific. Clients were equally frustrated where a local member of staff could see their trade but still could assist in resolving their issue.

K. Desire for more contact with CRMs: Most clients saw value in periodic operational review meetings or phone calls and also saw CRMs as a useful assistance in improving their relationship with the brokers. A large number had contact with CRMs from only a small number of brokers though and some had no contact at all. One commented that "*Where a broker does not provide a CRM in our timezone for escalation of issues, this affects the overall relationship. When the CS can't resolve the problem, we have to escalate straight to the trader* "

2.1.3 Core Transaction Management (Operations Best Practice)

Clients were asked to apply a weighting to 7 categories of Core Transaction Management (Operational Performance), both Domestically and Internationally. The results were as follows:

	US / European Equities	Japanese Equities	Asia Pacific Equities
Confirmation Timing	35%	33%	33%
Confirmation Accuracy	32%	32%	32%
Settlement Performance	16%	15%	16%
Fails Management	11%	12%	11%
Interest Claim Management	1%	2%	2%
Static Data Management	4%	5%	6%

	European Fixed Income	US Fixed Income	Asia Pacific Fixed Income
Confirmation Timing	30%	31%	30%
Confirmation Accuracy	32%	32%	33%
Settlement Performance	18%	17%	17%
Fails Management	10%	11%	11%
Interest Claim Management	5%	5%	4%
Static Data Management	5%	6%	6%

Confirmation timing and accuracy were consistently rated by clients as the most important factors in operations processing. Almost all clients focussed heavily on matching of confirms shortly after trade execution (generally on the same day) to avoid settlement issues. But one fixed income client said that the volume of faxes received by them precluded individual matching and so more reliance was placed on matching via

There were no major differences between weightings for different markets or between fixed income and equities, although some significance may be attached to the slightly higher weighting for interest claim management in fixed income over equity processing. As well as value, this perhaps reflected a larger number of issues being caused by the more manual procedures employed by many for processing fixed income trades.

The average weightings were largely similar to those from the corresponding 2004 survey, although confirmation accuracy gained in importance by an average of around 4% across all markets. In the equity markets, this gain was at the expense of settlement performance and interest claims and static data management. For fixed income though, the increase in focus was accompanied by a small decrease in emphasis on the importance of confirmation timing.

2.1.4 Client Management

For the purposes of this survey, the participating banks/Brokers have agreed the following terminology:

- **Client Service (CS): An individual or team who is/are the day-to-day contacts for Operational Issues.**
- **Client Relationship Management (CRM): An individual/team responsible for the overall operational relationship.**

Clients were asked to apply a weighting to 6 categories of Client Management. The results were as follows:

	Equities	Fixed Income
Client Service	37%	31%
Client Relationship Management	19%	20%
Linguistic Skills	7%	10%
Product Knowledge	13%	12%
Regular MIS	5%	5%
Responsiveness to Queries	19%	22%

Client Service was rated by almost all respondents as the most important factor in effective Client management, choosing to focus on swift, proactive resolution of problems when they occurred. The factors that Clients listed as being key to effective Client Service included:

- Proactivity;
- Availability and prompt response to queries;
- Understanding the client's business;
- Detailed knowledge of market practice and timely advice on this where necessary;
- Attention to detail;
- Clear and frequent communications with the client to prevent or resolve issues; and
- Effective communication of client issues and requirements to colleagues.

Client relationship management and responsiveness to queries both received weightings of around 20%, indicating that clients also placed a high priority on these aspects of service. The only significant change in weightings from 2004 was a 6% lower weighing for product knowledge in the fixed income markets in favour of responsiveness to queries.

2.1.5 Linkage of Operational Performance to Business

A majority of clients said that high operational performance could increase business levels for a broker. This was most often the case for program trading where influence was usually exercised via informal advice to traders on where to place individual pieces of business. For equity single stock business, influence was most often exercised through formal broker selection processes. Influence over fixed income trading patterns was less significant, although more than 50% of respondents still said that this could have a positive impact. This influence was either via formal broker selection processes or through informal discussions with traders over where to place more difficult trades, for instance those with a shortened settlement cycle or, for one, mortgage backed securities trades.

2.1.6 Internet Portals

A small majority of clients, both fixed income and equity, indicated that they would like brokers to implement client portals. For equities processing, most saw this as a useful backup for downloading trade data to help in resolving issues, or for accessing historic trade data. In contrast some saw an internet portal as having the potential to be central to fixed income processing with a number of clients from China and Japan saying they might consider using an internet download capability to assist in trade matching and replace faxed confirms. One client observed that *"Equities processing works well but more information is needed to support FI processing"*.

The largest appetite for client portals was to assist in settlement processing and in providing management information (including market updates).

One equity client summed up the views of those who did want to use a client portal, saying that *"there are too many brokers to consider using individual websites - we just want our confirms to be sent to us"*.

2.1.7 Top Clients/Overall Differential

The correlation between clients who awarded higher marks to a broker and that broker's preferred client list was mixed. In a few cases, there was a strong relationship; many of these brokers' most satisfied clients came from their preferred lists. However, for about half of the brokers there was no such relationship and non-preferred clients were as likely to award high marks as those from these brokers' preferred lists.

2.1.8 Penalisation of Banks

More than half of all clients said that they had penalised brokers for poor operational performance during the previous year, but most said that this had been necessary only a small number of times. For fixed income and program trading, the more likely action was a reduction of trading. With single stock trading, brokers were marginally more likely to be struck off for a period.

There was no consensus on the length of penalty typically imposed for poor operational performance. In some cases, it was between a few days and one month. A small number imposed much more severe penalties, cutting off business for between three and six months. Two clients simply reduced trading until the offending broker had convinced them that the issues experienced had been resolved.

One client commented that with the tightening of regulations for their Trust Bank clients they could no longer afford any operational errors. As a result they had begun to take a very tough line during the last year, adopting a '5 strikes and you're out' policy. After 4 operational errors of any sort a formal warning would be issued. After a fifth error, trading was ceased until the broker could convince this client that the source of the errors had been eliminated.

The most frequent reason for taking action against a broker was late or inaccurate confirmations. Settlement failure was also cited by several as a key reason. Some other distinct issues were also raised, including late advice on a change in the broker's processing of GST in Singapore and one broker falling behind with IRESS technology in Australia.

2.1.9 Strategic Direction - Initiatives Planned

The only technologies that a significant number of clients said they were considering adopting in the next two years were CTM for Equities and/or Fixed Income. For each of these, around 20% of clients said that they were likely or certain to implement the technology.

For equities CTM, around half were simply upgrading from OASYS Global. For fixed income, despite this move by some clients, many had no clear plan to move away from faxed or emailed confirms. A significant number, especially in Japan and China, expressed a desire to do this but had no clear direction on how this could be achieved. Several said that they were considering requesting their brokers/banks to begin sending confirmations via Swift.

A few individual clients also had plans which would affect the services that they required. One was considering trading distressed loans and expected CS support staff to be ready for this. Another client stressed the increasing importance to them of structured products (despite these being out of the scope of this survey) and commented that *"we will need termsheets with ISINs to be delivered to us by T+1 next year"*.

2.1.10 Next Steps

Z/Yen will arrange individual feedback sessions with each of the sponsoring Brokers early in 2006. The Clients who participated in the survey will each receive a summary copy of the report.

Z/Yen plans to repeat this survey in Q3/Q4 of 2006.

2.1.11 General Client Comments/Observations.

Clients were very generous in the time that they allocated to complete the survey and to discuss their responses in more detail with Z/Yen. Clients who had also participated in the survey in 2004 felt that this was a productive investment of their time, one commenting that *"Last year's survey was very interesting and was circulated to Senior Managers. Brokers appeared to take notice."*

For at least one client, the survey was a stimulus for a new way of thinking. This client said that *"We had not looked at Operations in this light until now. This survey has made us realise that Operations is an important after-sales service and should be a factor in business allocation to brokers in future."*

Another client valued this exercise but wanted to go further in future. This client remarked that *"We must have a mechanism to provide feedback on structured products next year. The results would be markedly lower for some of our brokers. This is where the pain areas now are in the industry."*

3. Executive Summary

3.1 Overall Summary of Rankings

The individual activity Rankings of each Broker were made by the Clients and are based on overall 2005 performance for each activity. The individual activity Rankings were then multiplied by the Activity Weightings (also Client-supplied) to give overall Equity and Fixed Income Ranks.

Overall Performance scores have been calculated by totalling the Core Transaction Management and Client Management ranks. Most Improved scores have been calculated by the overall difference between the 2004 total score and the 2005 total score.

Equities

Core Transaction Mgt. - US/European

- 1 Lehman Brothers
- 2 Morgan Stanley
- 3 CSFB

Most Improved Since 2004

- 1 CSFB
- 2 ABN AMRO
- 3 Lehman Brothers

Core Transaction Mgt. - Japanese

- 1 Morgan Stanley
- 2 Goldman Sachs
- 3 CSFB

Core Transaction Mgt. - Asia Pacific

- 1 Morgan Stanley
- 2 CSFB
- 3 Citigroup

Client Management

- 1 Morgan Stanley
- 2 CSFB
- 3 Deutsche Bank

Overall Performance

- 1 Morgan Stanley
- 2 CSFB
- 3 ABN AMRO

Fixed Income

Core Transaction Mgt. - European

- 1 CSFB
- 2 Merrill Lynch
- 3 Goldman Sachs

Most Improved Since 2004

- 1 Goldman Sachs
- 2 Lehman Brothers
- 3 CSFB

Core Transaction Mgt. - US

- 1 CSFB
- 2 UBS
- 3 Merrill Lynch

Core Transaction Mgt. - Asia Pacific Including Japan

- 1 CSFB
- 2 Lehman Brothers
- 3 Morgan Stanley

Client Management

- 1 CSFB
- 2 Morgan Stanley
- 3 HSBC

Overall Performance

- 1 CSFB
- 2 Merrill Lynch
- 3 Goldman Sachs

4. Broker Ranking - Summary of Top 3 Banks

Equities Core - US / European	First	Second	Third
Confirmation Timing - Single Stock	Lehman Brothers	Morgan Stanley	CSFB
Confirmation Timing - Program Trading	ABN AMRO / Lehman	ABN AMRO / Lehman	Morgan Stanley
Confirmation Accuracy - Single Stock	HSBC	Lehman Brothers	Deutsche Bank
Confirmation Accuracy - Program Trading	HSBC	ABN / Lehman	ABN / Lehman
Settlement Performance	Deutsche Bank	HSBC	CSFB
Fails Management	HSBC	Morgan Stanley	Lehman Brothers
Interest Claims Management	CSFB	Deutsche / Lehman	Deutsche / Lehman
Static Data Management	HSBC / Lehman	HSBC / Lehman	Deutsche Bank
Equities Core - Japanese	First	Second	Third
Confirmation Timing - Single Stock	CSFB	Morgan Stanley	JP Morgan
Confirmation Timing - Program Trading	Morgan Stanley	CSFB / JP Morgan	CSFB / JP Morgan
Confirmation Accuracy - Single Stock	HSBC	Morgan Stanley	Goldman Sachs
Confirmation Accuracy - Program Trading	Goldman Sachs	BNP Paribas / HSBC	BNP Paribas / HSBC
Settlement Performance	HSBC	Deutsche Bank	Lehman Brothers
Fails Management	Lehman Brothers	BNP Paribas / HSBC	BNP Paribas / HSBC
Interest Claims Management	BNP Paribas	CSFB	Goldman Sachs
Static Data Management	BNP Paribas	Goldman Sachs	Credit Lyonnais / HSBC
Equities Core - Asia / Pacific Exc. Japan	First	Second	Third
Confirmation Timing - Single Stock	Morgan Stanley	CSFB	ABN AMRO
Confirmation Timing - Program Trading	Morgan Stanley	CSFB	Citigroup / JP Morgan
Confirmation Accuracy - Single Stock	Morgan Stanley	CSFB	ABN AMRO
Confirmation Accuracy - Program Trading	Morgan Stanley/Goldman Sachs	Morgan Stanley/Goldman Sachs	CSFB
Settlement Performance	Morgan Stanley	Deutsche Bank	ABN AMRO
Fails Management	Morgan Stanley	Citigroup	JP Morgan
Interest Claims Management	Morgan Stanley / CSFB	Morgan Stanley / CSFB	UBS
Static Data Management	Deutsche Bank	Goldman Sachs	Merrill Lynch / JP Morgan
Equities Client Management	First	Second	Third
Client Service (CS)	Morgan Stanley	CSFB	Citigroup
Customer Relationship Management (CRM)	Morgan Stanley	CSFB	Deutsche Bank
Linguistic Skills	Morgan Stanley	CSFB	Merrill Lynch
Product Knowledge	Morgan Stanley	Deutsche Bank	Merrill Lynch
Regular MIS	Merrill Lynch	ABN AMRO	BNP Paribas / CSFB
Responsiveness to Queries	Morgan Stanley	CSFB	Citigroup
Fixed Income Core - European	First	Second	Third
Confirmation Timing	CSFB	RBS	UBS
Confirmation Accuracy	CSFB	ABN AMRO	Merrill Lynch
Settlement Performance	CSFB	Morgan Stanley / Merrill Lynch	Morgan Stanley / Merrill Lynch
Fails Management	Goldman Sachs	CSFB	Merrill Lynch
Interest Claims Management	CSFB	BNP Paribas / UBS	BNP Paribas / UBS
Static Data Management	CSFB	ABN AMRO	Lehman Brothers
Fixed Income Core - US	First	Second	Third
Confirmation Timing	UBS	Merrill Lynch	RBS / CSFB
Confirmation Accuracy	CSFB	ABN / Goldman Sachs	ABN / Goldman Sachs
Settlement Performance	CSFB	UBS	Morgan Stanley
Fails Management	Goldman Sachs	RBS / Merrill Lynch	RBS / Merrill Lynch
Interest Claims Management	Merrill Lynch / UBS	Merrill Lynch / UBS	RBS
Static Data Management	Lehman Brothers	Goldman Sachs	CSFB
Fixed Income Core - Asia / Pacific Inc. Japan	First	Second	Third
Confirmation Timing	CSFB	Morgan Stanley	HSBC / GS / UBS
Confirmation Accuracy	CSFB	Lehman Brothers	ABN / Morgan Stanley
Settlement Performance	CSFB	Lehman Brothers	ABN AMRO
Fails Management	Lehman Brothers	CSFB	Morgan Stanley
Interest Claims Management	CSFB	Goldman Sachs	UBS
Static Data Management	Lehman Brothers	CSFB	ABN / Goldman Sachs
Fixed Income Client Management	First	Second	Third
Client Service (CS)	CSFB	ABN AMRO / HSBC	ABN AMRO / HSBC
Customer Relationship Management (CRM)	HSBC	CSFB / Morgan Stanley	CSFB / Morgan Stanley
Linguistic Skills	CSFB	Deutsche Bank / BNP	Deutsche Bank / BNP
Product Knowledge	Morgan Stanley	Merrill Lynch	Deutsche Bank
Regular MIS	CSFB	Deutsche Bank	JP Morgan
Responsiveness to Queries	Morgan Stanley	CSFB	UBS

5. List of Participating Clients

All Clients Interviewed

- Lloyd George Management
- Invesco Asia Limited
- UOB Asset Management
- Templeton Asset Management
- Prudential Asset Management
- Morgan Stanley Investment Management
- Bank of China
- PMA Investment Advisors Ltd
- BOCI Prudential Asset Management
- ABN AMRO Asset Management
- Colonial First State
- AMP Capital Investors
- Credit Suisse Asset Management
- AXA Rosenberg Investment Management
- Schroder Investment Management
- DBS
- Temasek
- Credit Suisse Private Bank
- Deutsche Asset Management
- Citigroup Global Asset Management
- Legg Mason
- Value Partners Ltd
- Maple Brown Abbott
- Allianz Global Investors
- UBS Asset Management
- Bank of Tokyo Mitsubishi Ltd
- Dai-ichi Mutual Life Insurance Co.
- Mitsubishi UFJ
- Mizuho Bank Ltd
- China Construction Bank Corporation
- Agricultural Bank of China
- UBS Wealth Management
- Cathay Life Insurance Co Ltd
- Sumitomo Life Insurance Co
- Samsung Life Insurance
- Korea Development Bank