



**OPERATIONAL  
PERFORMANCE OF BROKERS  
Market Survey  
European 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 2005 Operational Performance of Brokers - European Securities Survey, carried out by Z/Yen Limited for a consortium of 12 major Banks ("the Brokers").

The study was performed based on individual, predominantly face-to-face interviews with clients using a structured questionnaire, as developed by Z/Yen and the participating Banks. 80 leading Investment Management companies / Hedge Funds / Pension Funds, ("the Clients") and/or in some cases, their Outsource Agents were interviewed between 31st August and 8th November, 2005.

The Sponsoring Brokers were as follows:

- ABN AMRO
- BNP Paribas
- Citigroup Global Markets
- CSFB
- Deutsche Bank
- JP Morgan
- Lehman Brothers
- Merrill Lynch
- Morgan Stanley
- Nomura International
- Royal Bank of Scotland
- UBS

This report may be read in conjunction with the reports from the corresponding Operational Performance of Brokers surveys:

- US Securities 2005
- Asia Securities 2005
- OTC Derivatives 2005

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

### 1.2 Approach

The approach adopted for this study was:

- Z/Yen set up and facilitated a series of workshops with the Brokers to agree and finalise scope, structure, format and questions;
- The Brokers selected the Clients who they wished to be interviewed and introduced Z/Yen to appropriate senior operations personnel;
- Z/Yen performed the interviews and documented responses and additional comments. Z/Yen re-iterated to clients that rankings should cover the calendar year, and not only recent performance. Z/Yen also encouraged clients to rank '0' (Not Applicable) if they did not have significant business with a particular Broker;
- Z/Yen published the findings and presented these to the Brokers.

### 1.3 Confidentiality of Results

The Clients and the Brokers provided information and comments on the basis that all data is confidential, that quotes are 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 Brokers but with only one set of data identified, e.g., Brokers will see their own ranked data but will not be able to identify data belonging to other Brokers.
- Brokers can see individual rankings from Clients only where the Client has specifically agreed for this ranking information to be shared.

### 1.4 Ranking Approach

Each Client was asked to complete a ranking template for Equities and Fixed Income (FI). The template contained ranking criteria on Core Transaction Management and Client Management activities.

In addition, each Client was asked to weight the individual criteria in terms of their importance.

## 2. Executive Summary

### 2.1 Overall Summary of Findings

#### 2.1.1 Background

A total of 80 Clients (or their Outsource Agents) were interviewed between 31st August and 8th November. A handful of clients were unable to meet but submitted their completed questionnaire via email. The clients were predominantly Asset or Investment Managers, but also included 2 Hedge Funds and 1 Pension Fund.

The Survey had the highest level of participation by Non-UK Clients to date, with 39 such Clients taking part (49%). Some Clients had solicited feedback from their overseas offices (to ensure Global and/or appropriate product coverage). Generally however, Clients interviewed were Global in their coverage and typically covered both Equities and Fixed Income.

Additionally, with 66% of those Clients having assets under management of over \$50 Billion, and indeed 26% over \$250 Billion, the combined input to the survey has been not only the broadest to date, but incorporates the most important clients.

#### 2.1.2 Key Messages

There were several important messages that emerged from the interviews, and Clients were very often keen to make observations and suggestions in relation to these messages. To help illustrate these, we have included many Client quotes in Section 3 of this report.

The Key messages were:

##### A. Increasing Empowerment of Operations in the Allocation of Business

Nearly 80% of clients reported that Operations had an influence in the allocation of business for Equities Single Stock - many (24%) through a formal process. This has increased from 70% last year, when there were also less clients interviewed. This empowerment is reflected in three key areas:

- **Broker Ranking:** The number of Clients that formally rank Brokers' Operational Performance is consistent with last year (40 in 2005, 39 in 2004). However, many of the Clients that were ranking last year have developed their ranking processes / systems further, and are able to provide a more accurate blend of Objective and Subjective input.

In the case of Outsource Agents, this ranking is often provided to the underlying client, so may (unknowingly) be contributing to business allocation. For other Clients, the ranking results are often used for the Operations input to the Broker Vote.

- **Input to the 'Broker-Vote':** The number of clients that have a formal percentage of the Broker vote remains consistent. For Equities, the percentage attributable to Operations ranged between 1% and 25% with the average being 14%, the same as last year.

For Fixed Income, the range was identical to Equities, but more clients' Operations groups had been able to increase the focus for Fixed Income, and thus the average has increased from 15% last year to 17%. The median percentage attribution was 15% for all products, which was identical to 2004.

- **Ability to Veto:** Over the last 12 months, the survey identified 60 instances where Clients have been prepared to impose the ultimate sanction of either reduced or suspended trading with specific Brokers. For Equities Single Stock, 27 Clients have done so (14 suspended, 10 reduced and 3 citing both). For Program trades, 11 Clients reported a penalisation (acknowledging that a reduction or suspension can effectively mean the same thing). For Fixed Income, 22 Clients have reduced trading or suspended Brokers in the last 12 months.

**Over and above this**, many clients observed that because of Operations' ability to veto Brokers that perform badly, Brokers that demonstrate Operational excellence will increase business by default.

## **B. Importance of Core Processing Functions and People**

Once again, Clients place a high degree of emphasis on the Operational Performance of Brokers - both for the allocation of new business and in the protection of existing business levels. Confirmation (Timing and Accuracy) and Settlement Rate are the key areas, although Clients are increasingly seeing Client Service representatives (CS) as an integral part of the Core Transaction process.

As with last year we asked all clients to provide an additional weighting, distinguishing between Core Processing functions, i.e., the Day to Day service, and added value functions such as Client Relationship Management (CRM). The results were virtually identical to last year - showing a 70% - 30% split in favour of Day to Day servicing.

Clients were often keen to point out how important it is to have the right type of person in the right type of role.

### **C. Continued Growth of Outsourcing**

The extent to which Clients are Outsourcing (or considering Outsourcing) has increased again, and significantly. Fifteen of the interviews were either with Clients who had outsourced their entire post-execution process, or with their outsource agents (up from 9 last year). Perhaps more significantly, nine organisations interviewed are now providing an outsource option for Operations (up from 4 last year). In some cases, the pre-existing back office of the underlying client has been 'lifted out' and is now serving as the outsource agent for that client. In all these cases, those interviewed expected the Client base of their organisations to grow.

At these Outsource organisations however, interviewees often expressed concern over how multiple-client environments will be addressed by Brokers (as the Outsource Agent's client base grows) - not least in the areas of MIS, Review Meetings and Escalation - on both sides. Almost every section of the Questionnaire received commentary specific to Outsourcing and Outsource agents, underlining that the impact is across the range of services offered by Brokers.

### **D. Effective (and increasingly Knowledgeable) CRM**

Clients are increasingly looking for multi-product knowledge and advice from Client Relationship Managers (CRM), not least as Clients' volume and product diversity grows. Additionally, as the Industry is promoting Customer Management and Care, Clients that have previously not had CRM coverage, are expecting / demanding it.

That said, Clients want their CRMs to be effective: As a point of escalation, at communicating change, at understanding the Client and being empowered within their own Organisation. Clients like to meet CRMs at appropriate (to the client) intervals, and often like to have local CRM coverage (Non-UK).

### **E. "Know Your Client"**

Over and above the traditional interpretation (understanding the Clients structure, needs, pressure points, success measures etc), Clients were keen to point out key factors of perceived excellence, and they were (like last year) often very different for Client Service (CS) and CRM.

For CS, Clients were often very specific as to what they want (refer to section 3D for many examples - one being that many clients highlighted Fund and/or market nuances that were causing STP or Cost issues for them). For CRM, excellence related to specific examples of the Clients' core expectations of Escalation, Empowerment, Communication, Provision of Information and general Relationship Building.

## F. Volume Growth and Change in Business Mix

There is considerable volume growth anticipated by many clients. This is particularly the case for Derivatives (Credit, Exchange Traded and OTC), where between 40 and 50% of Clients expect more (or much more) activity. It's possible that this number is under-represented also, as several of the individuals at clients were unaware of future plans (particularly where we were interviewing Outsource providers). Many of the individuals interviewed were also responsible for the Derivatives Operations.

There is also anticipated growth in many other areas, including Program Trading and Emerging Markets. There were virtually no products where clients anticipated reductions in volume, although in those rare instances, it was often due to increased focus elsewhere.

## G. Increased Automation

Clients recognise that to support their growth, they need to invest in improved technology, and will very often require Broker support in this regard, in 2 ways:

- Clients are often implementing or upgrading their own systems, and there were several instances where brokers were ranked highly and/or complimented for either adapting a certain process to fit with the Client, or for helping with testing and/or showing understanding and support when issues arose as a result of these changes. The systems that are receiving the most attention are FIX for Allocation / Confirmation and OMGEO CTM, where in the latter, for example, 23% of Clients have plans to develop within the next 2 years.
- Leading the way or working together to look for alternatives to current 'accepted' processes or systems. Clients were often very critical of current systems (such as ALERT and OASYS) and expressed concerns over the lack of direction in the move toward others (such as SSI Fresh or OMGEO CTM).

## H. Fixed Income still lags behind Equities:

Many clients still complain that, from the Brokers' perspective, the quality of Fixed Income processing is still significantly behind that of Equities. They are becoming increasingly frustrated that this gap still exists, despite not being apparent within their own organisation. Many of the Broker-Specific comments supplied focused on the difference in service. For example: *"There is less automation for Fixed Income and the brokers should be able to address this, as our benchmarking looks for the same standards - it's why we gave a lot of 'needs improvement' rankings for Fixed Income"*.

Additionally, one Client summarised : *"Fixed Income versus Equities - all projects at brokers have historically been driven by Equities. For Equities, MIS is very good, and Fixed Income is piggy-backing. For STP, Equities are way ahead (98%), while Fixed Income is behind but getting better - around 80%, and OMGEO can now handle FI also."*

Some steps forward have been made, and the survey's ranks reflect this, but there is still a significant opportunity for Brokers to excel in this regard.

**I. Global Inconsistencies**

While a few clients observed an improvement in Global coverage - the majority of Clients identified a continued lack of consistency in Global Coverage as a major (generic) weakness in services offered by Brokers. While some Clients are 'regionalised' - in that US and/or Asian products are traded and settled locally, the majority manage global products from one location.

For these Clients specifically, there is much dissatisfaction with regard to confirmation timing issues, and also a lack of coverage. This seems to be exacerbated by Brokers in general having different systems in different regions, or an inability to access/view trades when booked in a different time zone. One client reported that one of the drivers for their own move to Regionalisation was the lack of Broker support in this regard!

**J. Greater demand for MIS**

As Clients develop more sophisticated means of monitoring and ranking Broker's Operational performance, they will be demanding more, and more accurate data from the brokers - both on Broker and Client (peer) performance.

**2.1.3 Core Transaction Management (Operations Best Practice)**

Clients were asked to apply a weighting to 4 broad categories of Core Transaction Management (Operational Performance). The results were as follows:

	Equities	Fixed Income
Confirmation Timing	30%	30%
Confirmation Accuracy	29%	29%
Settlement Performance	26%	27%
Static Data Management	15%	15%

Clients' key requirements are for timely and accurate Confirmations. The majority of clients tend to weight the two criteria similarly (in many cases identically), although there were often strong views (and weightings) that one was more important than the other.

One Client observed *"Timing is critical - you can recover an error, but not if it's too late"*, while another remarked *"Accurate SSIs (and therefore Confirmations) drive the whole process - this is vital."*

### 2.1.4 Client Management

For the purposes of this survey, the participating brokers agreed the following terminology (which was presented to Clients during the interview):

- **Client Service (CS):** An individual or team who is/are the Day-to-Day contact for operational issues.
- **Client Relationship Management (CRM):** An individual or team who is/are responsible for the overall operational relationship (including single point of contact for escalation, bank/broker review meetings, new operations/process implementation etc):

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

	Equities	Fixed Income
Client Service	36%	38%
Client Relationship Management	26%	26%
Linguistic Skills (Non UK only)	3%	3%
Product / Market Knowledge	14%	13%
Regular MIS	11%	10%
Management of Interest Claims	9%	10%

The CRM component of Clients' weightings in this section remains consistent with previous surveys, at around 25-26%. Most Client observations of excellence within CRM related to specific examples of the Clients' core expectations of Escalation, Empowerment, Communication, Provision of Information and general Relationship Building. The two CRM themes that Clients consistently pointed out in the "single most important point" question were 'Know, Understand and Communicate with your Clients' and 'Ensure commitments filter down to day-to-day Operations.'

Management of Interest Claims was moved into the Client Management Section this year with interesting results. When in the Core Transaction Management Section, this component typically attracted around 5% of weightings (within 5 criteria). This year, the Management of Interest Claims has attracted double that, at 9-10% (and this within 6 criteria). In general, the extra 5% appears to have moved from Client Service, which at approximately 37% is 6% down on 2004.

**2.1.5 Most Improved Areas**

Clients observed an improvement in the majority of the most highly weighted criteria (shown below). The improvements were not as dramatic as those between 2003 & 2004 (when the criteria improvements ranged between 5% to 8%), but the trend of perceived improvement is continuing.

The biggest single area of improvement was in Fixed Income Settlements, reflecting Clients qualitative observations that Fixed Income (while behind Equities) continues to close the gap in terms of the services provided. As Clients are perhaps focusing more on the Fixed Income performance of Brokers, they are more critical however of Static Data Management, which saw a significant drop in average ranks vs. 2004.

CRM improvements were again observed for both Products.

**Key Changes since 2004**

Ranking Criteria	2004 Average	2005 Average	% Inc.
Equities: Confirmation Timing	3.66	3.67	0.3%
Equities: Confirmation Accuracy	3.67	3.65	
Equities: Settlement	3.70	3.67	
Equities: Static Data Management	3.64	3.49	
Equities: Client Service	3.60	3.65	1.4%
Equities: Client Relationship Mgt.	3.61	3.67	1.7%
FI: Confirmation Timing	3.42	3.47	1.5%
FI: Confirmation Accuracy	3.46	3.51	1.4%
FI: Settlement	3.47	3.58	3.2%
FI: Static Data Management	3.61	3.44	
FI: Client Service	3.52	3.57	1.4%
FI: Client Relationship Mgt.	3.48	3.57	2.6%

(Scores range from 5 = Excellent, 3 = Satisfactory to 1 = Poor)

### 2.1.6 Client Feedback on the survey

Only 2 Clients that participated in 2004 were unable to do so this year. Both these Clients were undergoing significant change and/or high volumes, so we hope will be able to take part next year. As is evidenced by the increase in interviews generally, 14 Clients participated in the survey for the first time and we had the highest proportion of Non-UK input of any survey.

Clients were generally very happy to take part and were enthusiastic in providing ranks and working examples. Many were grateful that the Settlements ranking criteria had been amended and there was enthusiastic anticipation of the results of the Reverse Study (due in January / February 2006). Comments and suggestions to enhance the survey process included:

- *"Good survey - it works ! We had been sceptical about it 2-3 years ago, - not so now as we see how all the brokers have responded. It would be nice to have one on Custodians."*
- *"Figures are better than in 2004, so we are seeing improvements (especially in Fixed Income), but we still find it bizarre that there is not parity between Equity and Fixed Income (where the cost of an interest claim is much higher for the latter)."*
- *"At the IM follow up workshop, it may be interesting to have representatives there from the brokers - to say what they are going to do on the back of the Z/Yen study."*
- *"Is there a possibility to regroup the FX and equity surveys? Some of the brokers in your equity survey cover our FX-deals as well and we would like to know more about their performance in the FX market."*
- *"Some brokers still request specific reviews, on top of the Z/Yen one. The specific ones probably cost them a lot more in management time - and we never know what happens to them!"*
- *"We don't do broker surveys - we tell them that we focus on the Z/Yen study."*
- *"This is the first year that we have not suspended a broker for operational performance - it is confirmation that the benchmarking works. The results of the Z/Yen study should be published to the wider industry (i.e., Pension Funds, Trustees and Consultants - to their front offices.) Do a Custodian Study please!"*
- *"This looks like a useful survey."*
- *"We think the study is a useful exercise, as brokers do look at how they rank. As more clients outsource, Brokers will have to adapt"*
- *"Too many boxes last year - better this year. This year was going to be a test to see if we would take part next time - you passed!"*
- *"We believe the Study is now doing its job, and it also allows us to get around having to do individual rankings."*
- *"Very interested in the reverse study. I expect bad news so I can ask for systems expenditure."*
- *"We believe it's good to have an independent view."*
- *"We know this study is important to the brokers."*
- *"We think this study is an effective process, and gets the brokers (and us) focused."*

- *"We needed to put a lot of effort into these statistics - frankly we do it more as a favour to the Brokers."*
- *" The Z/Yen study helps CRMs add support for internal spend, and it has good output."*

Several Clients were very keen to have **other Brokers** take part (as Sponsors) in the Study: They included (listed alphabetically!):

- Bank of America
- Barclays Capital
- Cazenove
- DRKW
- Exane
- Goldman Sachs
- HSBC
- Liquidnet
- Redburn Brothers

### 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 adding the Core Transaction Management and Client Service ranks.

**Most Improved** scores have been calculated by the overall difference between the 2004 total score and the 2005 total score.

For 2005, the overall Top 3 banks in each category are as follows:

## Equities

#### Core Transaction Mgt. (CTM)

- 1 DRKW
- 2 CSFB
- 3 ABN AMRO

#### Overall Performance (CTM + CS)

- 1 CSFB
- 2 Merrill Lynch
- 3 ABN AMRO

#### Client Service (CS)

- 1 Merrill Lynch
- 2 Morgan Stanley
- 3 ABN AMRO

#### Most Improved since 2004 (CTM + CS)

- 1 Morgan Stanley
- 2 ABN AMRO
- 3 UBS

## Fixed Income

#### Core Transaction Mgt. (CTM)

- 1 ABN AMRO
- 2 Morgan Stanley
- 3 DRKW

#### Overall Performance (CTM + CS)

- 1 ABN AMRO
- 2 Morgan Stanley
- 3 CSFB

#### Client Service (CS)

- 1 ABN AMRO
- 2 Morgan Stanley
- 3 Merrill Lynch

#### Most Improved since 2004 (CTM + CS)

- 1 Morgan Stanley
- 2 ABN AMRO
- 3 UBS

**4. Broker Ranking - Summary of Top 3 Banks**

<b>Equities Core Transaction Management</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Confirmation Timing - Single Stock	DRKW	ABN AMRO	CSFB
Confirmation Timing - Program Trading	DRKW	ABN AMRO	CSFB
Confirmation Accuracy - Single Stock	DRKW	CSFB	Lehman Brothers
Confirmation Accuracy - Program Trading	DRKW	CSFB	Lehman Brothers
Settlement - Settlement Rate	DRKW	Morgan Stanley	CSFB
Settlement - Exception / Fail Management	Morgan Stanley	Merrill Lynch	CSFB
Static Data Management	CSFB	Morgan Stanley	DRKW

  

<b>Equities Client Management</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Client Service	Morgan Stanley	Merrill Lynch	CSFB
Client Relationship Management	ABN AMRO	Merrill Lynch	Morgan Stanley
Linguistic Skills (Non UK Only)	Deutsche Bank	DRKW	Merrill Lynch
Product Knowledge	Merrill Lynch	ABN AMRO	CSFB
Regular MIS	ABN AMRO	Deutsche Bank	Merrill Lynch
Management of Interest Claims	DRKW	Merrill Lynch	ABN AMRO

  

<b>Fixed Income Core Transaction Management</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Confirmation Timing	CSFB	Morgan Stanley	RBS
Confirmation Accuracy	Citigroup	Goldman Sachs	ABN AMRO
Settlement - Settlement Rate	DRKW	ABN AMRO	Morgan Stanley
Settlement - Exception / Fail Management	ABN AMRO	Merrill Lynch	Morgan Stanley
Static Data Management	ABN AMRO	Merrill Lynch	CSFB

  

<b>Fixed Income Client Management</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Client Service	Morgan Stanley	Merrill Lynch	Citigroup
Client Relationship Management	ABN AMRO	Morgan Stanley	UBS / CSFB
Linguistic Skills (Non UK only)	Lehman Brothers	UBS / ABN	UBS / ABN
Product Knowledge	UBS	CSFB	ABN AMRO
Regular MIS	ABN AMRO	CSFB	Deutsche Bank
Management of Interest Claims	DRKW	ABN AMRO	Morgan Stanley

## 5. List of Participating Clients

### All Clients Interviewed

- Schroder Investment Management
- JPMorgan Fleming Asset Management
- Bank of New York (Merrill Lynch Asset Management)
- Goldman Sachs Asset Management
- BNP Paribas Securities Services (Hendersons)
- Morgan Stanley Investment Management
- IXIS Asset Management
- Credit Agricole Asset Management
- Allianz Global Investors (Frankfurt)
- Threadneedle Asset Management
- Deutsche Asset Management (London)
- Banca Intesa (Nextra)
- Mellon Global Security Services (F&C Management)
- Statestreet, London (Scottish Widows)
- UBS Asset Management (London)
- DEKA
- Credit Suisse Asset Management (Zurich)
- ABN Asset Management (London)
- ING Investment Management
- F&C Asset Management (ISIS)
- M & G Investment Management
- Deutsche Asset Management (Frankfurt)
- INVESCO
- Statestreet, Paris (AXA, France)
- Allianz Dresdner Global Investors (Munich)
- BNP Paribas Asset Servicing (BNP Asset Management)
- Legal & General Asset Management
- Insight Investment Management
- Pictet et Cie (London)
- Franklin Templeton Investment Management
- Alliance Capital
- Credit Suisse Asset Management (London)
- BlackRock
- Citigroup Asset Management
- Fortis Investment Management
- Monte Paschi
- Aegon Asset Management (Edinburgh)
- Baring Asset Management
- Baille Gifford
- Newton Investment Management
- State Street Global Advisors
- European Credit Management
- Dexia
- Hermes Investment Management
- TT International
- Bank Of Ireland Securities Services (BOI AM)
- Capital International
- Royal London Asset Management
- Britannic Asset Management
- Martin Currie
- Statestreet, Amsterdam (ABN)
- Nomura Asset Management
- Societe Generale Asset Management
- Pictet et Cie (Geneva)
- UBS Asset Management (Zurich)
- Ferox Capital Management
- Aegon Asset Management (Den Haag)
- T-Rowe Price Fleming
- Fidelity Asset Management
- Banco Bilbao Vizcaya Argentaria
- ARCA
- Alecta
- SEB Asset Management
- Western Asset Management
- Rogge Global Partners
- Cominvest Asset Management
- MEAG Asset Management
- Fineco
- Natexis Investor Servicing (Natexis Asset Management)
- HSBC Asset Management (Paris)
- DNB Asset Management
- Robur
- Brummer
- Alfred Berg
- Nordea
- PGGM
- Delta Lloyd
- HSBC Strategic Outsource Services (Gartmore Investment Management)
- Activest Investment Managers
- Swiss Re Asset Management