



**OPERATIONAL
PERFORMANCE OF BROKERS
Market Survey
European Securities
2006**

Summary of Results

Version 1.0

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1. Introduction

1.1 Scope of Study

This document is the report of the 2006 Operational Performance of Brokers - European Securities Survey, carried out by Z/Yen Limited for a consortium of 13 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. 89 leading Investment Management companies, Hedge Funds and Pension Funds, ("the Clients") and/or some cases, their Outsource Agents were interviewed between 30th August and 3rd November, 2006.

The Sponsoring Brokers were as follows:

- ABN AMRO
- BNP Paribas
- Citigroup
- Deutsche Bank
- Goldman Sachs
- HSBC
- JP Morgan
- Liquidnet
- 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 2006
- Asia Securities 2006
- Global OTC Derivatives 2006

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

2. Overall Summary of Rankings

Equities

Core Processing

- 1 Liquidnet
- 2 ABN AMRO
- 3 Lehman Brothers

Overall Performance (CP + CM)

- 1 **ABN AMRO**
- 2 Liquidnet
- 3 UBS

Client Management

- 1 ABN AMRO
- 2 UBS
- 3 JP Morgan

Most Improved since 2005 (CP + CM)

- 1 **JP Morgan**
- 2 Nomura
- 3 UBS

Fixed Income

Core Processing

- 1 Morgan Stanley
- 2 ABN AMRO
- 3 Goldman Sachs

Overall Performance (CP + CM)

- 1 **Morgan Stanley**
- 2 ABN AMRO
- 3 JP Morgan

Client Management

- 1 Morgan Stanley
- 2 JP Morgan
- 3 ABN AMRO

Most Improved since 2005 (CP + CM)

- 1 **JP Morgan**
- 2 Nomura
- 3 Deutsche Bank

The individual Activity Scores for each Broker were given by the Clients and are based on overall 2006 performance for each activity. These individual Activity Scores were then multiplied by the Activity Weightings (also Client-supplied) to give overall Equity and Fixed Income scores.

Overall Performance scores have been calculated by adding the Core Processing and Client Management scores.

The Most Improved scores have been calculated by taking the overall difference between the 2005 total score and the 2006 total score.

3. Overall Summary of Findings

3.1 Background

A total of 89 Clients or their Outsource Agents were interviewed between 28th August and 3rd November, making this the largest European survey to date. In order to reduce the number of annual Z/Yen interviews for Clients, the majority that were interviewed for Equities and Fixed Income also provided input to the OTC Derivatives study, which is being reported on separately.

The Clients were predominantly Asset or Investment Managers (67) but also included 14 Hedge Funds, 3 Pension Funds, 4 Banks (with Asset Management arms) and 1 Corporate.

The Survey also had a high degree of participation by non-UK Clients, with 35 Clients based elsewhere in Europe taking part. Some Clients had solicited feedback from their overseas offices (to ensure Global and/or appropriate product coverage). Generally however, the Clients interviewed were Global in their coverage and typically covered both Equities and Fixed Income.

Additionally, with 60% of those Clients having assets under management of over \$50 billion, and indeed 27% over \$250 billion, the combined input to the survey has been not only the broadest to date, but continues to incorporate the most important clients.

During the qualitative part of the interviews, there were several key messages that emerged (see below). Clients were keen to provide detailed examples, observations and suggestions to support these messages. To this end, we have included numerous Client quotes in the report.

3.2 The Market

"GROWING CLIENTS, MORE MARKETS.....SAME BROKERS"

As in 2005, Clients anticipate considerable volume growth over the next 12 to 24 months, particularly for Equities and Fixed Income 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.

There is also anticipated growth in many other areas, particularly OTC Derivatives, where between 40% and 65% of Clients expect more (or much more) activity. It is also possible that these numbers are under-represented, as several of the individuals at clients were unaware of future plans (particularly where we were interviewing Outsource providers - this is itself an issue!).

"OUTSOURCING CONTINUES TO GROW WITH MORE PROVIDERS"

The extent to which Clients are Outsourcing (or considering it) has increased for the fourth successive year - and significantly. For Equities, 24 of the interviews were either with Clients that had outsourced some or all of their operations process, or their Outsource Agent. (Fixed Income = 27). This has increased from 15 in 2005.

Significantly, the number of organisations interviewed that are providing an Outsource option has also increased, from 9 in 2005 to 14 today. The growth has mainly been attributable to Clients' pre-existing back offices having been 'lifted out' to serve as a 'new' Outsource Agent. In these and most other cases, the Outsource Agent expects further growth (organically and with new Clients).

On a few occasions this year, the longer-established Outsourcer Agents have observed that as their Client base has increased, Brokers are not always consistent in the treatment of different Clients (e.g., with regard to confirmation timing or responsiveness).

Of the 'newer' Outsource agents, most still observe that the continuity of the existing relationships with the brokers was retained.

3.3 Broker Selection

"RANKING IS HERE TO STAY AND HAS BECOME A SCIENCE"

The number of Clients that formally rank Brokers has remained consistent, at 38. However, Clients are using much more objective data to support their ranking. In 2004, 33% of Client ranking was entirely subjective. By 2005 this had fallen to 25% and subjective-only ranking today accounts for just 5% of Client ranking.

Clients are also placing greater emphasis on the results of their internal ranking. Over half the Clients believe that Brokers' operational service has improved since they have been using a 'Broker Scorecard' of some sort.

15 Clients have awarded more business on the back of such improvements.

"GOOD OPERATIONAL PERFORMANCE WILL WIN YOU BUSINESS"

18 Clients have a formal percentage of the 'Broker Vote' attributable to Operations. This has risen from 15 in 2005 (as more Clients have moved to Outsource, it is possible that this number is under-stated). The average percentage of this vote is 11% for Equities and 10% for Fixed Income.

"BAD OPERATIONAL PERFORMANCE WILL LOSE YOU BUSINESS"

The number of instances where Clients have taken the ultimate (historically 'last resort') step of reducing or suspending business (due to poor operational performance), is consistent with previous years. In 2006, there have been 53 instances.

Given that most Clients have increased volume and product coverage over the last 12 months, the impact of these penalties must have been significant. Clients again pointed out that when Brokers are penalised in this way, that other, good performers, will benefit by default.

3.4 Operations Best Practice

"MARKET PRACTICES ARE STILL CHANGING"

There is widely held view (reflected in the narrow range of Core Processing weighted averages) that Operational Best Practice for Equities and Fixed Income is fairly well defined. To that end, approximately half of the Clients believe that their operational requirements from the Brokers have been and will remain consistent.

However, a further 45 Clients have changed their requirements in the last 12 months and the evidence suggests that these changes will continue.

Changes in Clients' Operational requirements tended to be either:

- In the Client's booking process (e.g., Block to Allocation), or new/wider use of Confirmation platforms (e.g., Oasys),
- In the Structure and/or Focus of the Client's Organisation or,
- As a result of Insourcing or Outsourcing

3.5 Client Management

"INVESTMENT IN CLIENT MANAGEMENT PAYS OFF"

The range of weighted average results (top to bottom bank) is much wider for Client Management than for Core Transaction Processing. This is particularly true for Fixed Income. Therefore, those Brokers that have successfully invested in Client Management (which has been well received by Clients) will have been more successful overall.

The survey identified key distinguishing attributes that Clients look for:

"PLEASE PROVIDE A SINGLE POINT OF CONTACT"

For Client Service (CS), the survey identified the key distinguishing attributes as:

- A single, preferably dedicated point of contact.
- Speed & effectiveness in responding to queries.
- Resolution of settlements and fails issues.

Over and above this, 75% of Clients prefer a single point of contact, that covers the same products as the Client. This comes with the caveats that a) the contact has adequate and knowledgeable back up and b) that actually a group is acceptable, provided it works.

"IMPROVE CLIENT COVERAGE"

Following on from the above point, Clients used the general question relating to 'issues' with Regional Coverage to highlight a number of areas where Brokers have opportunities to excel. These include:

- Local presence (e.g., Paris, Milan etc.,) is useful and appreciated.
- Bank Holiday and out-of-hours coverage.
- Transparent offshoring/outsourcing.
- Response time for Asian / US trade enquiries.
- Global Coverage (systems and people).
- Pass-The-Book coverage.

"TAKE CRM TO THE NEXT LEVEL"

For Client Relationship Management (CRM), the survey identified the key distinguishing attributes as:

- Strong understanding of the Client and the Industry.
- A point for escalation, with authority to make and execute decisions.
- Improvement (relative to CS also).

Clients were typically enthusiastic when completing the forced-ranking which determined the importance of specific CRM (and CS) activities. The majority highlighted the key 'traditional' aspects for each (above). However, there are also a number of specific areas that are more important to certain Clients.

With CS and CRM being an increasingly distinguishing factor in the survey results, it is important for Brokers to recognise which of their Clients place greater emphasis on specific areas, such as:

- Greater use of Oasys Global, or OMGEO CTM, or SWIFT.
- Automated Allocations or Automated Repos.
- Effective Listening.
- Consistency of staff, systems, treatment of products.
- Liaison with Custodians.
- Better or more Review meetings.
- Improved Interest Claims.
- Smoother Account Opening process.
- Better Fail Management.

For each of the above points, at least one Client identified it as the most important thing Brokers can do to improve STP or Client Management, **and they want CRMs to drive this.**

3.6 Future Plans

"CLIENTS ARE MAKING GREATER USE OF TECHNOLOGY"

Clients recognise that to support their increase in activity, they need to work with Brokers to achieve greater STP - particularly by investing in technology. Over the last year for example, usage of SWIFT for Confirmations has increased from 13% of respondents to 24%.

Also, 25% of Clients will be moving onto OMGEO CTM within the next year and around 10-12 Clients will be moving onto FIX for Allocation or Confirmation, in the same period.

"CLIENTS WANT THE BROKERS' HELP IN ACHIEVING STP"

Clients want Brokers to take the lead in driving Industry standards. Clients often require (and certainly appreciate) Broker support with their plans and changes in the technology arena. Many favourable comments regarding areas of excellence describe Brokers that have worked with Clients on System upgrades, transitions, or simply providing information on the options available.

"CLIENTS ARE STILL NOT INTERESTED IN INDIVIDUAL PORTALS"

Clients want Brokers to take the lead in driving Industry standards.

Clients that do have access and use Broker websites are generally enthusiastic, particularly with regard to using access as a back up for day-to-day Core Transaction Management.

Clients that don't use the Brokers' websites/portals, continue to be of the opinion that this would create additional work on top of their use of Custodians' website/portals.

The key is to target Clients appropriately: 25 Clients 'do not want' Website access, yet for 29 Clients, access is either 'desirable', or in some cases, 'mandatory'.

3.7 Changes in Client Ranking of Brokers since 2005

Overall, there has been a pattern of higher scores since 2005; the average score for Equities is up 1.5% and the average score for Fixed Income is up 2%.

For Equities, Clients have observed a significant improvement in the maintenance of Static Data - historically one of the areas that has not improved. This seems to have had a positive impact on Settlements (an area that has also improved), but has not affected how critical Clients are of Confirmation Timing and Accuracy. Averages for CS and CRM are higher for the 3rd successive year - rewarding those Brokers that have invested in this area.

For Fixed Income there has been improvement in all areas, reflecting the feeling throughout the study that Fixed Income is closing the long-perceived gap on Equities. Settlements and Static Data are the areas that Clients have been most impressed by improvements.

Ranking Criteria	2005 Average	2006 Average	% Inc./Dec.
Equities: Confirmation Timing	3.67	3.58	-2%
Equities: Confirmation Accuracy	3.65	3.65	0.0%
Equities: Settlement	3.67	3.76	2.5%
Equities: Static Data Management	3.49	3.70	6.0%
Equities: Client Service	3.65	3.73	2.2%
Equities: Client Relationship Mgt.	3.67	3.70	0.8%
FI: Confirmation Timing	3.47	3.49	0.6%
FI: Confirmation Accuracy	3.51	3.57	1.7%
FI: Settlement	3.58	3.71	3.6%
FI: Static Data Management	3.44	3.54	2.9%
FI: Client Service	3.57	3.65	2.2%
FI: Client Relationship Mgt.	3.57	3.61	1.1%

3.8 Weighting of Operations Functions

Core Processing

Clients were asked to apply a weighting to 8 categories of Core Transaction Management (Operational Performance). The results were as follows:

	Equities	Fixed Income
Confirmation Timing	27%	26%
Confirmation Accuracy	27%	25%
Settlement Rate	18%	17%
Exception / Fail Management	14%	12%
Static Data Management	9%	10%
Interest Claim Management	5%	5%
Customer Valuations - Reporting		3%
Customer Valuations - Client Service		3%

Clients demand timely and accurate confirmations. This remains the most common 'single most important point' identified by Clients. . As usual, Clients generally expect similar operational standards to be applied to both Equities and Fixed Income.

The average weightings are similar for timing and accuracy. However, for some Clients, one can be more important than the other. This is an area where it is important to understand the Client's priorities

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.

	Equities	Fixed Income
Client Service	34%	35%
Client Relationship Management	27%	27%
Product / Market Knowledge	15%	15%
Coverage	14%	13%
Regular MIS	10%	9%

The average weighting results are virtually identical to last year, re-enforcing the need for consistency in Client Management.

Interestingly, now that 'Linguistic Skills' has been dropped as a criteria, Several Clients raised this as an important area of 'Coverage', along with some preference for Local Offices etc.

3.9 Client Feedback on the Survey

Ten Clients that participated in 2005 were unable to do so this year. At most of these organisations, this was due to Clients undergoing significant management and/or system changes, or being involved in insourcing or outsourcing programmes. Most of these Clients indicated that they would be happy to take part next year. However, 18 Clients took part in the study for the first time, so the net result was the biggest participation to date, from the widest variety of Clients.

Clients were typically very happy to take part, often providing not only ranks, but significant generic input - we met with 130 expert practitioners, with contributions from 25 named others.

Clients were fairly enthusiastic about the proposed (sponsored) reverse survey, which we will be launching soon. Comments and suggestions to enhance the study process included:

- *"We are very positive about the survey - it carries weight and gets to the right people at the brokers."*
- *"It is refreshing to do a combined survey."*
- *"The survey covers all the products that we do, and the importance of the weighting is good also. We will do the reverse survey next year."*
- *"The study is a great piece of kit. We would like to see Barclays, Lehman's and Commerzbank as sponsors."*
- *"We would like to have seen more French Brokers (Exane, CA, Soc Gen, Ixis)."*
- *"CRM - generally there has been less visibility from the established CRM's (maybe a by product of the process becoming more mature). Others that have been less visible in the past have emerged with quite a presence, but these surveys should not be combined. We prefer OTC to be separate as it's still in its infancy."*
- *"There were too many CRM criteria to force rank - with much overlap."*
- *"We would prefer just to rank (with a larger scale - i.e., 1-7)."*
- *"We like the new format / size."*
- *"CS - We make a clear distinction between Confirmations and Settlements - and the scores are often different. Can you look at this going forward?"*
- *"The brokers do take the survey seriously, and at a high level, We have seen positive outcomes as to what's discussed through this process."*
- *"Survey is very helpful - an effective way to collate information. I wish the brokers would engage us more directly (this is the only vehicle)."*
- *"Rankings will be easier when we have a scorecard or good MIS."*
- *"In future years we can conduct these interviews with the outsource agent."*

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4. Summary of Top 3 Brokers by Activity

Equities Core Processing	First	Second	Third
Confirmation Timing - Single Stock	Liquidnet	ABN AMRO	Lehman Brothers
Confirmation Timing - Program Trading	Liquidnet	ABN AMRO	Lehman Brothers
Confirmation Accuracy - Single Stock	Liquidnet	JP Morgan	Morgan Stanley
Confirmation Accuracy - Program Trading	Liquidnet	UBS	Lehman Brothers / DRKW
Settlement Rate	Liquidnet	ABN AMRO	Morgan Stanley
Exception / Fail Management	Liquidnet	ABN AMRO	Lehman Brothers
Static Data Management	Liquidnet	ABN AMRO	Nomura Int.
Interest Claim Management	ABN AMRO	Liquidnet	Nomura Int.
Equities Client Management	First	Second	Third
Client Service (CS)	UBS	ABN AMRO	JP Morgan
Client Relationship Management (CRM)	ABN AMRO	UBS	JP Morgan
Product / Market Knowledge and Advice	Citigroup	ABN AMRO	JP Morgan
Coverage	ABN AMRO	Morgan Stanley	UBS
Regular MIS	ABN AMRO	Deutsche Bank	JP Morgan
Fixed Income Core Processing	First	Second	Third
Confirmation Timing	Morgan Stanley	Goldman Sachs	ABN AMRO
Confirmation Accuracy	Morgan Stanley	ABN AMRO	Goldman Sachs
Settlement Rate	Morgan Stanley	ABN AMRO	Goldman Sachs
Exception / Fail Management	Morgan Stanley	JP Morgan	ABN AMRO
Static Data Management	Morgan Stanley	DRKW	JP Morgan
Interest Claim Management	ABN AMRO	RBS	Nomura Int.
Customer Valuations - Reporting	ABN AMRO	Morgan Stanley	Deutsche Bank
Customer Valuations - Client Service	UBS	Morgan Stanley	ABN AMRO
Fixed Income Client Management	First	Second	Third
Client Service (CS)	Morgan Stanley	JP Morgan	UBS
Client Relationship Management (CRM)	ABN AMRO	JP Morgan	UBS
Product / Market Knowledge and Advice	JP Morgan	ABN AMRO	Morgan Stanley
Coverage	Morgan Stanley	ABN AMRO	JP Morgan
Regular MIS	Morgan Stanley	ABN AMRO	Deutsche Bank

5. List of Participating Clients

- ABN Asset Management
- ABP Investments
- Activest Investment Management
- Aegon Asset Management
- Alliance Bernstein
- ARCA
- Baillie Gifford
- Banca Intesa (o/s for Nextra AM)
- Bank of Ireland Securities Services (o/s for BOI AM)
- Barclays Global Investors
- Baring Asset Management
- BlackRock
- Bluebay Asset Management
- BNP Paribas Securities Services (as o/s for Hendersons)
- BNP Paribas Securities Services (o/s for BNP Asset Mgmt)
- Bank of New York (o/s for JPMFAM & MLIM)
- Brevan Howard Asset Management
- Capital International
- Caxton Europe Asset Management
- Cheyne Capital Management
- Citigroup (o/s for Aegon Asset Management)
- Cominvest Asset Management
- CQS Management
- Credit Agricole Asset Management
- Credit Suisse Asset Management
- Dekabank
- Deutsche Asset Management
- Dexia Asset Management, Belgium
- Dexia Asset Management, France
- DNB Asset Management
- La Banque Postale
- Endeavour Capital
- Eton Park International
- European Credit Management
- F&C Investments (o/s for ISIS)
- Fidelity Investments
- Capitalia Asset Management
- Fischer Francis Trees & Watts
- Fortis Investment Management
- Franklin Templeton Investment Management
- GLG Partners
- GlobeOp (o/s for BlueCrest)
- Goldman Sachs Asset Management
- Hermes Administration Services
- IBT (o/s for Norges Bank)
- Insight Investments
- Invesco
- ISIS Investment
- IXIS Asset Management
- JP Morgan (as Administrator of London Diversified Fund)
- JP Morgan (o/s for Morley Fund Management)
- JP Morgan Investment Management
- Jupiter Asset Management
- Legal & General Asset Management
- M & G Investment Management
- Martin Currie
- Mellon Global Securities Services (o/s for F&C Asset Management)
- MN Services
- Morgan Stanley Investment Management
- Natexis Asset Management
- Newton Investment Management
- Nomura Asset Management
- Northern Trust (o/s for Julius Baer Investments)
- PGGM
- Pictet et Cie
- Pimco
- Pioneer Investments
- Polygon Investment Partners
- Robur Kapitalforvaltning
- Rogge Global Partners
- HSBC Securities Services (o/s RLAM)
- Banco Santander Central Hispano
- Schroder Investment Management
- SEB Asset Management
- Sinopia Asset Management
- Societe Generale Asset Management
- Solent Capital Partners
- State Street (o/s for ABN AMRO)
- State Street (o/s for AXA)
- State Street (o/s for Scottish Widows)
- State Street Global Advisors
- State Street IMS (o/s for Allianz)
- Swiss Re Asset Management
- JP Morgan (o/s Threadneedle)
- T-Rowe Price
- Tudor Capital
- UBS Asset Management
- Vega Asset Management
- Western Asset Management