



**Operational  
Performance of Clients  
Market Survey  
2006  
Summary of Findings**

# 1. Introduction

## 1.1 Background

This document is a summary of the report of the 2006 Operational Performance of Clients - European Securities Survey, carried out by Z/Yen Limited, in conjunction with a consortium of 11 major Banks ("the Brokers"). All data is based on 2005 submissions.

Z/Yen has conducted annual Operational Performance of Brokers (OPB) Surveys since 2002. As part of these surveys, Z/Yen conducts face-to-face interviews with the Brokers' mutual Clients ("the Clients"), typically leading Investment Management companies, Hedge Funds, Pension Funds and/or, in some cases, their Outsource Agents. The purpose of the interviews is to get direct feedback on generic market issues and trends, and also to rank the Brokers on a series of Operational and Customer Service criteria. The numbers of interviews in the European Securities survey has grown from 31 in 2002, to 80 in 2005 (of which half were in Continental Europe).

Z/Yen also conducts surveys concurrently for Asian and US based Clients and for OTC Derivatives.

In the 2004 survey, both Brokers and Clients expressed an interest in a "Reverse Survey", whereby the Brokers would have an opportunity to rank the Clients. Over 90% of the 71 Clients interviewed showed interest.

After consultation with the leading Brokers and with a number of clients, Z/Yen offered to initiate a pilot survey, to establish a framework for potential future surveys. This has been done on a "pro bono" basis.

## 1.2 Approach & Scope

The approach for this study was:

- Z/Yen set up and facilitated a series of workshops with the Brokers to agree and finalise scope, structure and format of the 'classification' and ranking of the Clients;
- Z/Yen then held a workshop with a representative group of Clients to ensure the approach and ranking criteria were appropriate (and welcome!);
- Z/Yen then asked Brokers to classify each Client on their use of technology for Allocation, Confirmation and Static Data. Where the Broker's classifications differed, then the most automated means identified was used as the basis of ranking, e.g., if 1 Broker classified a Client as using OASYS Block, and a second Broker classified the Client as using Email or Fax, then the Client would be classified as OASYS Block;
- After each client had been classified, Z/Yen asked each Broker to rank all of the Clients with whom they had a significant relationship, on the following criteria:

**a) Confirmation Performance:**

- Allocation (Effective Use of Connectivity)
- Allocation (Timing)
- Allocation (Accuracy)
- Affirmation (Timing)

**b) Settlement Performance**

**c) Static Data Management**

**d) Interest Claim Management** (How well managed)

**e) Client Service**

- Responsiveness to Queries
  - Contact Accessibility
- After all data had been submitted, Z/Yen summarised the findings as a series of graphs and produced this customised report for each of the 77 Clients that were ranked.

### 1.3 Brokers and Clients

The Brokers that contributed to this study were as follows:

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

The Clients selected for ranking were those that had contributed to the 2004 study, plus a small number that had been selected to take part by the Brokers but had not been able to participate in the 2004 study. All Clients were notified of this process and only one declined to participate. In total, 77 Clients were ranked. A full list of Clients that were ranked is shown in section 4.

Clients were ranked separately for **Equities** (Single Stock and Program Trades combined) and **Fixed Income** (Cash Bonds and Repos combined).

## 2. Executive Summary

### 2.1 Background

The Brokers ranked a total of 77 Clients, based in 11 Countries, between October and December 2005. Clients were predominantly Asset or Investment Managers, but also included 2 Hedge Funds and 1 Pension Fund. 9 of these Clients were ranked on the performance of their outsource agents. The majority of Clients covered both Equities and Fixed Income (approximately 70%), although some Clients manage different products from different offices/entities, and thus have been ranked separately.

### 2.2 Key Messages

#### A. Brokers place significant emphasis on "Effective use of Connectivity" and "Settlement Performance".

While Allocation Timing and Accuracy are considered important, Brokers place a higher degree of importance on "Effective Use of Connectivity" and "Settlement Performance". These criteria attracted a 19% and 16% average weighting respectively (see next page).

- In general, nearly all Clients ranked "Satisfactory" or better in the overall weighted averages, reflecting good relationships with the major Brokers. However, the range of scores under "Effective use of Connectivity" is wider than any other criteria. This is true for both Equities and Fixed Income, and perhaps underlines the Operational effort required for Brokers to manage multiple means of connectivity.
- While attracting a comparably low average weighting of 5%, "Affirmation Timing" is an area where Brokers have also expressed a collective concern by awarding a very wide range of scores to Clients.

#### B. The Confirmation process is more automated than Allocations.

Both Brokers and Clients have focused on the automation of the Confirmation process, where 92% of Clients are automated for Equities (either OASYS or CTM Block) and 72% for Fixed Income. This compares to 55% and 33% respectively for the Allocation process.

The domicile of the Client has often contributed to the degree of automation, with some trends being observed by country, e.g., Confirmations for German based Clients are predominantly SWIFT and Clients based in Italy and Switzerland have a higher degree of manual processing of Allocations.

### C. ALERT is the standard for Static data.

Around 70% of Clients use ALERT for the maintenance of static data, both for Equities and Fixed Income, although input to the OPB study suggests that the majority of Clients observe that there is no realistic alternative.

There were no observed instances of Clients using FMC for static data.

### D. Equities vs. Fixed Income

As with the OPB survey, Brokers generally ranked lower for Fixed Income than for Equities.

### E. Communication - A two way street

In general, Brokers have been 'constructively generous' to Clients, perhaps typically only ranking less than "Satisfactory" to highlight specific concerns. However, one area where Brokers have awarded a broader range of scores is for "Responsiveness to Queries", clearly placing emphasis on the need for good two-way communication.

### F. MIS - Client Reporting

Nearly half the Clients included in the survey (32) produce a Broker Scorecard for at least 1 Broker. Within these scorecards, Confirmation Timing is the most popular measure.

Additionally, 22 Clients also provide some form of Peer Ranking to Brokers, and a similar number also provide MIS on reported Issues.

## 2.3 Overall Weighted Averages

The Brokers were asked to apply a percentage weighting to 9 broad categories for Equities and Fixed Income. The results were almost identical across both products and were as follows:

	WEIGHTING
Effective Use of Connectivity	19.2%
Settlement Performance	16.0%
Static Data Management	12.4%
Client Responsiveness to Queries	11.8%
Allocation Timing	11.5%
Allocation Accuracy	11.0%
Contact Accessibility	8.4%
Affirmation Timing	5.3%
Interest Claim Management	4.4%

Under Effective Use of Connectivity, some Brokers suggested there were often generic issues pertaining to:

- Teething problems with a move onto CTM.
- Manual Allocations are generally more problematic than OASYS or CTM, for example.
- Clients not on ALERT really stand out.
- Confusion between Entities / Accounts (particularly after mergers and/or outsourcing)

## **2.4 Next Steps**

The Operational Performance of Brokers (OPB) Study will be repeated in 2006, with interviews being conducted in September and October.

**Operational Performance of Clients - Market Survey - European Securities 2006**

**3. Broker Ranking - Summary of Top 3 Asset Managers (Minimum of 5 ranks)**

<b>Equities : Confirmation Performance</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Effective Use of Connectivity	BlackRock Int.	Schroder IM, Invesco, Fidelity, Bank of Ireland	
Allocation Timing	Morgan Stanley IM	Bank of Ireland	BlackRock Int., TT Int., Fidelity
Allocation Accuracy	Morgan Stanley IM	BlackRock Int., Schroder IM, ARCA, Fidelity	
Affirmation Timing	BlackRock Int.	Britannic AM	Morgan Stanley IM
<b>Equities - Other</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Settlement Performance	Bank of Ireland	Britannic AM, Martin Currie IM	
Static Data Management	BlackRock Int.	TT Int., ARCA	
Interest Claim Management (how well managed)	DEAM (Germany), Aegon AM, DWS Inv., DEAM (UK)		
Client Service - Responsiveness to Queries	Bank of Ireland	Schroder IM, Banca Intesa (Nextra)	
Client Service - Contact Accessibility	Bank of Ireland, Schroder IM		HSBC (Gartmore)
<b>Fixed Income : Confirmation Performance</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Effective use of Connectivity	Bank of Ireland	DEAM (UK)	Invesco, Insight IM
Allocation Timing	Baillie Gifford	ARCA, Schroder IM	
Allocation Accuracy	Baillie Gifford	BNP AM	ARCA, Invesco, CSAM (UK)
Affirmation Timing	Newton IM, JPMF AM		ARCA, Hermes
<b>Fixed Income - Other</b>	<b>First</b>	<b>Second</b>	<b>Third</b>
Settlement Performance	Insight IM	Bank of Ireland	F&C AM (ISIS)
Static Data Management	DEAM (Germany), BNP AM		ARCA
Interest Claim Management (how well managed)	Fortis, Threadneedle		Norges Bank
Client Service - Responsiveness to Queries	Banca Intesa (Nextra)	ARCA, Monte Paschi	
Client Service - Contact Accessibility	Pioneer IM	Schroder IM, Banca Intesa (Nextra), CSAM (UK)	

#### 4. List of Clients who were Ranked in the Survey

- ABN Amro Asset Management Holland
- ABN AMRO Asset Management, UK
- ABP Investments
- Aegon Asset Management, Holland
- Aegon Asset Management, UK
- Alecta
- Alliance Capital
- Allianz Dresdner RCM, UK
- Allianz, Frankfurt
- Allianz, Munich
- Arca sgr S.p.A
- AXA IM France
- Baillie Gifford and Co.
- Banco Bilbao Vizcaya
- Banco Santander Central Hispano
- Bank for International Settlements
- Bank of Ireland Security Services (BOI AM)
- Banque D'Orsay
- Barclays Global Investors
- Baring Asset Management
- BlackRock International Ltd.
- BNP Paribas Asset Management
- Britannic Asset Management Ltd.
- Capital International, Switzerland
- Citigroup Asset Management
- Crédit Agricole Asset Management
- Credit Suisse Asset Management, UK
- Credit Suisse Asset Mgt., Switzerland
- DekaBank
- Deutsche Asset Management Group, Germany
- Deutsche Asset Management Group, UK
- Dexia
- DWS Investments
- F & C Management Ltd.
- Ferox Capital Management Ltd.
- Fidelity
- Fortis Investments
- Franklin Templeton Investments
- Generali
- GLG Partners LP
- Henderson Global Investors
- Hermes Investment Management
- HSBC (Gartmore)
- HSBC Asset Management
- ING Investment Management
- Insight Investment Management Ltd.
- Invesco
- ISIS Asset Management plc
- IXIS Asset Management
- JPMorgan Fleming Asset Management
- Legal & General Investment Management Ltd.
- M&G Investment Management
- Martin Currie Investment Management
- Merrill Lynch Asset Management
- Monte Paschi Asset Management
- Morgan Stanley Investment Management Ltd.
- Morley Fund Management
- Newton Investment Management
- Nextra Investment Management
- Nomura Asset Management
- Norges Bank
- Pictet & Cie, UK
- Pictet et Cie, Switzerland
- Pioneer Investment Management
- Robeco
- Royal London Asset Management
- Schroder Investment Management Ltd.
- Scottish Widows Inv. Part. Ltd.
- SEB Asset Management
- Société Générale Asset Management
- Standard Life
- State Street Global Advisors
- Swiss Re Asset Management
- T. Rowe Price
- Threadneedle Asset Management Ltd.
- TT International Investment Management
- UBS Asset Management, UK