



**OPERATIONAL  
PERFORMANCE OF BROKERS  
Market Survey  
US Securities  
2004**

**Summary of Findings**

Version 1.0

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**A JOINT LETTER FROM THE PARTICIPATING BROKERS**

(originally issued at the launch of this year's survey)

Following its success in 2003, we the undersigned brokers have commissioned another Operational Performance of Brokers survey for 2004. Z/Yen Limited will, again, be administering this for us.

As professionals in operations at Fund Managers and Brokers we all agree on the importance of improving the operational efficiency and Client service offered to securities market participants. A number of Fund Managers have been successful in promoting greater STP and raising standards in the industry through the introduction of bilateral meetings and scorecards with their brokers. This dialogue should continue to be the primary feedback and improvement mechanism between Broker and Client.

The Z/Yen survey supplements this primary feedback process, providing a single, independent and credible industry view, effectively giving the "Industry" a voice and their Clients an opportunity to address them collectively. The rankings themselves are important as they give a consistent measurement of broker performance and show where investment and change has been successful and where it is still required. The 2003 results have been widely distributed in our organizations raising the profile of what we are collectively striving to achieve in operational excellence with our front offices / funding sources. The aggregation of your feedback through the 2003 Z/Yen survey has improved our ability to drive the appropriate change within our organizations. We encourage you to be open in your feedback and to have no qualms about being transparent as this represents the greatest value to us individually in improving the way we operate with you. However, you can restrict certain feedback in the survey if you so wish.

For the 2004 survey we plan to make minimal changes so that we have some consistency year on year. We will, however, strive to make the process simpler and faster for you. We wish to extend our thanks to all of our clients who participated in the 2003 survey and who plan to support the 2004 survey.

Regards,

The Brokers:

|                          |                |
|--------------------------|----------------|
| Citigroup Global Markets | Merrill Lynch  |
| CSFB                     | Morgan Stanley |
| Deutsche Bank            | UBS            |
| JP Morgan                |                |

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## 1. Introduction

### 1.1 Scope of Study

This is the report of the Operational Performance of Brokers - Market Survey - US Securities 2004 carried out by Z/Yen Limited for a consortium of 7 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 2004.

The Sponsoring Brokers were as follows:

- Citigroup Global Markets
- CSFB
- Deutsche Bank
- JP Morgan
- Merrill Lynch
- Morgan Stanley
- UBS

In addition to the sponsoring Brokers, Clients were also asked to rank two further peers: Goldman Sachs and Lehman Brothers.

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

- European Securities 2004
- Asian Securities 2004

A list of the Clients interviewed can be found in section 6.

### 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 Detailed Report

A detailed report of the survey has been distributed to the Brokers.

## 2. Executive Summary - Overall Summary of Findings

### 2.1 Background

36 Clients were interviewed between September 13th and November 9th 2004. The Clients interviewed were predominantly Investment Managers (94%). The remainder were Pension Funds or Insurers (or indicated that they had Pension/Insurers as end Clients).

Clients were from a variety of locations and some Clients had solicited feedback from their other (sometimes overseas) offices, to ensure global and/or appropriate product coverage. Most Clients had a global focus of investment, and 80% are responsible for managing over US\$50 Billion of Assets).

The content and structure of the 2004 Operational Performance of Brokers Study was again designed by the participating brokers collectively. Although the questionnaire was derived from that conducted in 2003, a number of changes were made to ensure appropriate comparability to the parallel studies covering the European and Asian Markets.

As in 2003, the Clients to be interviewed were selected based on demand from the Brokers. As part of the process, the Clients were introduced to Z/Yen by the Brokers.

### 2.2 Key Messages

There were a number of messages that emerged from the interview stage of the survey. To help illustrate these, we have included numerous quotes in Section 3 of this report. The key messages were:

- **Importance of Core Processing Functions:** The Operational Performance of Brokers continues to be an important factor in the choice of Brokers, both in the allocation of new business and in the protection of existing business levels. In particular, Clients place a high degree of emphasis on timely, accurate and effective transaction management, particularly the confirmation and settlement process.

Clients have high expectations for Confirmation and Affirmation Timing, with the vast majority of Clients expecting 100% confirmation on Trade Date (some within 2 hours), For fail rates also, Clients expect (on average) a 98% trade completion rate, with slightly more leeway for Program Trades. Most clients expect this degree of excellence from a Broker relationship, and do not rely on Service Level Agreements to determine standards.

- **Increased Focus on Broker Ranking:** While the degree of evolution and sophistication varies, Clients are increasingly monitoring Broker's Operational Performance in order to better justify their rankings and / or feedback to Traders and Fund Managers.

Approximately one third of Clients now rank their brokers (compared to half in Europe). The majority base these rankings on subjective views, but some clients already have, or are planning to develop, more automated, objective monitoring processes.

- **Provision of CRM:** Most clients want their Brokers to have Client Relationship Management (CRM) activities, or want to further develop existing roles. This is particularly evident in three areas of the survey:

1. Clients strongly believe that their **basic expectations of the CRM role (as defined by the Brokers in the questionnaire) are only met by a minority of the Brokers**. Clients see establishment and/or development of the CRM role as a way in which Brokers can excel in Operational Performance.

2. The majority of clients see "Know your client" or "Provide us with CRM" as the **single most important point**, in terms of Brokers' service provision.

3. Clients overwhelmingly prefer a **single point of contact for CRM**, and yet access to product specialists for day-to-day Client Service (CS).

- **Changing Reporting Requirements:** The overwhelming majority of Clients have no interest in paper based activity statements. Clients do recognise the regulatory requirements of Brokers in this regard however, and nearly all would be happy to receive these electronically in lieu (and most to a dedicated group email ID).

Conversely, clients in general feel that they do not receive sufficient levels of MIS (Management Reporting), particularly with regard to Broker and Peer performance. Many Clients expect more from their brokers in this regard, particularly in the areas of Confirmation Timing and Settlement (and Fail) activity.

- **Benchmarking:** Clients are increasingly using (or considering) benchmarking to support them in their evaluation of Broker's (and their own) Operational Performance. Nearly 30% of Clients for example, use the DTC Report Card.

Clients are specifically looking for Brokers to help them improve their Straight Through Processing (STP). Around 40% of clients use ALERT for example, and better usage of ALERT by brokers was identified as the key area where brokers can help to improve STP.

- **Global Coverage:** Several clients have observed that brokers could do more to support a more global approach to trading. This includes the ability to interrogate a common systems platform - which only 1 or 2 Brokers seem able to do.

- **Changing Demands:** Nearly every Client interviewed has significant changes planned or envisaged, and expect Brokers to work with them to ensure these changes have minimal impact on Operations. Such changes included:

- Product Diversification;
- Volume Growth (mainly organic);
- Systems reviews and upgrades;
- Integration of Operations offices, processes or support systems;
- Outsourcing (10% of clients already outsource some or all of their processes).

**2.3 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:

|                                      | <b>Domestic Equities</b> | <b>Domestic Fixed Income</b> |
|--------------------------------------|--------------------------|------------------------------|
| Confirmation Timing                  | 23%                      | 24%                          |
| Confirmation Accuracy                | 24%                      | 24%                          |
| Automation (Allocation/Confirmation) | 15%                      | 17%                          |
| Settlement Performance               | 16%                      | 14%                          |
| Fail Management                      | 15%                      | 12%                          |
| Interest Claims                      | 2%                       | 4%                           |
| Static Data Management               | 5%                       | 4%                           |

|                                      | <b>International Equities</b> | <b>International Fixed Income</b> |
|--------------------------------------|-------------------------------|-----------------------------------|
| Confirmation Timing                  | 23%                           | 23%                               |
| Confirmation Accuracy                | 22%                           | 23%                               |
| Automation (Allocation/Confirmation) | 12%                           | 13%                               |
| Settlement Performance               | 18%                           | 19%                               |
| Fail Management                      | 15%                           | 13%                               |
| Interest Claims                      | 5%                            | 4%                                |
| Static Data Management               | 6%                            | 5%                                |

Confirmation Accuracy and Timing (across all product groups) were viewed as key requirements for successful and efficient operational performance. Levels of automation in the more highly commoditized domestic markets was also seen as important. Settlements also, when combined with Fail Management, is equally, if not more important to clients.

Interest claim processing was a 'bug bear' for some clients, but was not highly weighted. Although many Clients complained of the quality of instruction pull down from ALERT, Static Data Management tended to be the least important (stand alone) element across the board.

## 2.4 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 4 categories of Client Management. The results were as follows:

|                                | Equities | Fixed Income |
|--------------------------------|----------|--------------|
| Client Service                 | 49%      | 49%          |
| Client Relationship Management | 22%      | 21%          |
| Product Knowledge              | 18%      | 18%          |
| Regular MIS                    | 10%      | 12%          |

Clients expectations of CS are that they generally should be knowledgeable about the markets they are responsible for, that ideally there should be a single point of contact, and that they should respond quickly and effectively to issues, as they arise. The main area for improvement was seen as reporting around failed trades (numbers, comparisons, reasons etc.) There were also some calls for greater communication regarding organizational change, contact details, coverage and (sometimes) faster trade confirmations.

For CRM, Clients stressed that being the focus of 'The Relationship', and a point for escalation are the key expectations of the CRM function. Clients like CRM's to be proactive in understanding the Client's business and subsequently ensuring that clients needs are represented and followed through at the Broker. There was a clear and recurring message from clients in this regard - that clients like and want a CRM relationship, where possible. In instances where brokers do have CRM, clients are keen for this to be built upon, in order to better develop the relationship.

Clients expect to see their CRM at least annually and ideally on a semi annual basis, to meet and address operational performance issues.

## 2.5 Linkage of Operational Performance to Business

Approximately one third of clients interviewed formally rank the operational performance of their brokers, and the majority of these feed this information back to Traders and Fund Managers. While most of the ranking is subjective (there were only a few instances of a formal 'Broker Vote' from Operations currently in place), many clients are contemplating or planning more Objective means of ranking.

In many cases, Client's Operations groups feel that Operational excellence can lead to additional business flow (approximately 50% for Equities and as high as 80% for Fixed Income).

## 2.6 Internet Portals

Web portals do not appeal to the majority of Clients, other than for back up and/or MIS purposes. Many clients have existing portals, but the uses and requirement for this form of access vary considerably.

## 2.7 Top Clients/Overall Differential

In most cases, individual Broker "Top 10" Clients results produced higher rankings than the average of all 36 Clients. This may indicate that service tier differentiation has been implemented and/or that Brokers' Top Clients have a historically higher level of service from that Broker. There is generally a higher proportion of 'Excellent' or 'Good' rankings offered by Brokers' Top 10 Clients - perhaps reflecting the 'Platinum or Gold' status that many Clients have been given.

## 2.8 Penalisation of Brokers for Poor Performance

Approximately three quarters of the Clients interviewed have at some time taken the step of penalising Brokers for poor operational performance. Ultimately, this can often take the form of reduced or suspended trading.

Many Clients observed however that penalisation can take several other forms, including escalation (either to Traders or Fund Managers), downgrading of rankings or increases levels of status reporting on issues. The practice of suspending brokers for certain types of trades, or in certain markets only, appears to be increasing.

The main reasons for a reduction in trading or even suspension are typically confirmation and/or settlements related. Clients' Operations areas are more empowered to make recommendations to suspend. This is despite the fact that Clients recognise this action may set back the overall relationship.

## 2.9 Strategic Direction - Initiatives Planned

Clients are focusing on improving their own Straight Through Processing (STP) models in conjunction with (and as well as) monitoring and improving Broker performance in this regard.

Additionally, Brokers will need to be sensitive to the (sometimes significant) changes within Clients' organisations.

Other than ALERT, Clients seem to be adopting a 'wait and see' approach with regard to external system usage, and in many cases, Clients were looking for greater guidance from Brokers in regard to possible alternatives.

## 2.10 Next Steps

Z/Yen will arrange 1-1 feedback sessions with the each of the sponsoring Banks.

The Clients who participated in the survey will be sent a summary copy of the report and overall rankings.

This survey will be repeated in Q3/Q4 2005. We are looking to initiate a "reverse survey (Brokers ranking the IMs' Operations)" in early 2005 in Europe. If this proves successful, we will look to roll this out in the North American market also.

### 3. Overall Summary of Rankings

The individual activity rankings of each Broker were made by the Clients and are based on overall 2004 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 scores.

Overall Performance has been calculated by adding the Core Transaction Management and Client Service scores.

For 2004, the overall Top 3 banks in each category are as follows:

## Equities

### Core Transaction Mgt. - Domestic (CTMD)

1. Merrill Lynch
2. Lehman Brothers
3. Morgan Stanley

### Core Transaction Mgt. - International (CTMI)

1. CSFB
2. Goldman Sachs
3. Merrill Lynch

### Client Service (CS)

1. Morgan Stanley
2. Merrill Lynch
3. Goldman Sachs

### Overall Performance (CTMD + CTMI + CS)

1. Merrill Lynch
2. Morgan Stanley
3. CSFB

## Fixed Income

### Core Transaction Mgt. - Domestic (CTMD)

1. Merrill Lynch
2. Lehman Brothers
3. Morgan Stanley

### Core Transaction Mgt. - International (CTMI)

1. CSFB
2. Morgan Stanley
3. JP Morgan

### Client Service (CS)

1. Merrill Lynch
2. Morgan Stanley
3. Goldman Sachs

### Overall Performance (CTMD + CTMI + CS)

1. Morgan Stanley
2. Merrill Lynch
3. CSFB

## 4. Market Analysis

### 4.1 Client Overview

#### 4.1.1 Location

Of the 36 Clients interviewed, all except one were based in the US. Most were based in the North East corridor (from Boston to Baltimore) or California. One Client was based primarily in the UK. Many Clients incorporated views from multiple locations, providing a firm-wide view on Broker performance.

Approximately 10% of Clients have outsourced some or all of their back office operations. For those of the Clients that have outsourced their entire operational process, the interview was conducted with the outsource agent, with a review done by the Client's management.

#### 4.1.2 Interviewees

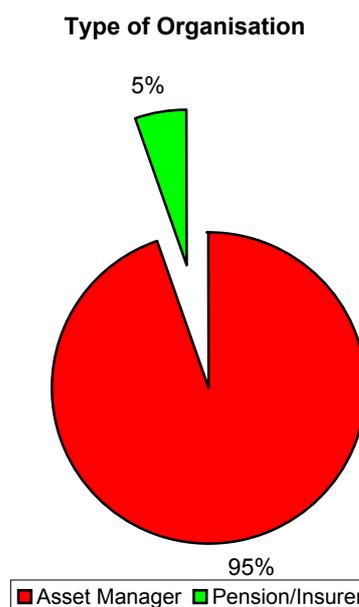
At each Investment Manager (Client), the interviewee or group of interviewees represented the core operational processes and the interface/interaction with the trading or investment management activities, across Fixed Income and Equity securities products (but excluding derivatives which have been covered by a separate study).

As a result the interviewees were often coordinating feedback across many functions. Interviewees were typically senior management, heads of Fixed Income and Equity Operations, Trade Support and on occasions Trading.

#### 4.1.3 Type of Organisation

Nearly all Clients interviewed were Asset Management Companies.

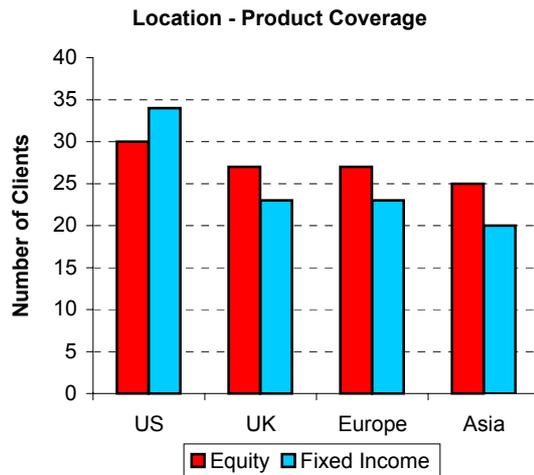
A small number of Clients were Pension Funds or Insurers, or indicated that they had Pension / Insurers as end Clients. In the latter case, these are represented in both sections opposite.



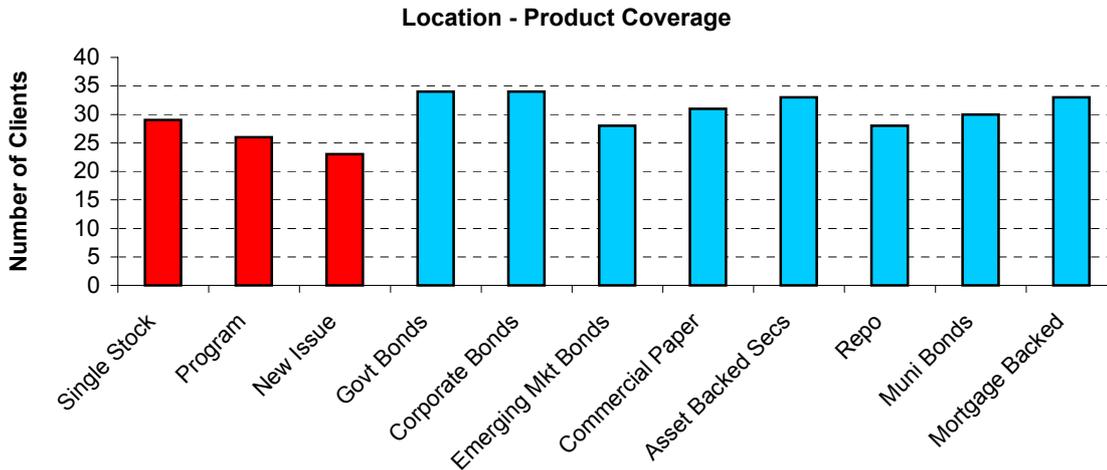
#### 4.1.4 Product Coverage

Many of the participating Clients executed both Equity and Fixed Income products with the Brokers, but a number were exclusively (or almost exclusively) one group or the other.

Similarly the majority of Clients executed both domestic and international securities but a minority did not transact significant international business.



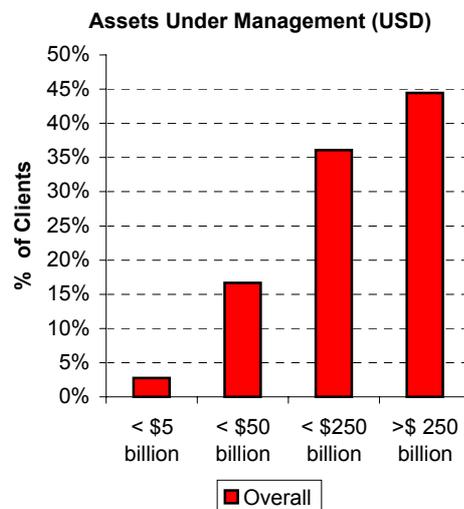
#### 4.1.5 Product Coverage (Detail)



#### 4.1.6 Size (Assets Under Management)

The majority of the most influential Clients in the US market were included in the survey.

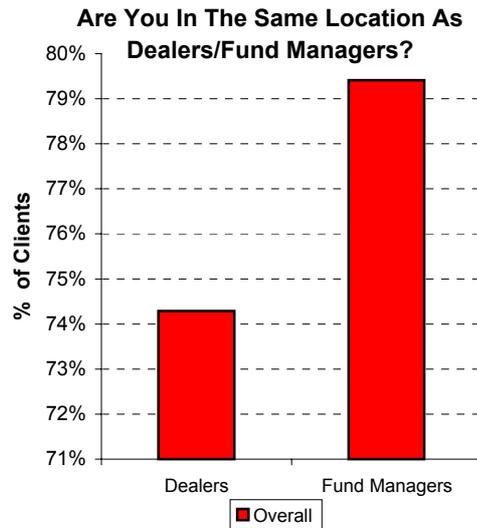
Total assets under management of the participant Clients ranged from less than \$5 billion to greater than \$250 billion, with the majority of participants distributed towards the larger end of that spectrum.



**4.1.7 Location of Operations / Proximity to Dealers and Fund Managers**

70 - 75% of Client operations were located in the same location as the principal dealing and fund management activities.

For many Clients, trading and operations are supported in multiple locations, but in nearly all cases, Clients were able to respond on behalf of the entire organisation (i.e., Global Coverage).

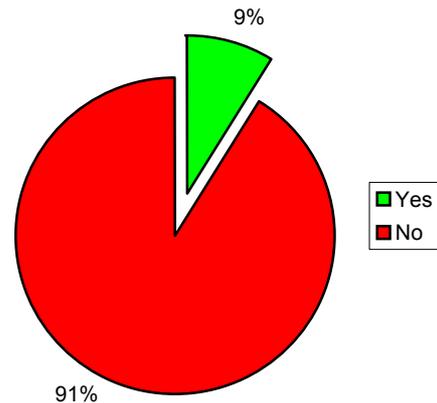


**4.1.8 Outsourced Operations**

Approximately 10% of investment managers have outsourced a significant component of the operational process. Of those, some have outsourced the complete process.

Others remained interested in outsourcing as a possible future direction.

Is Any Function of Your Middle/Back Office Outsourced?

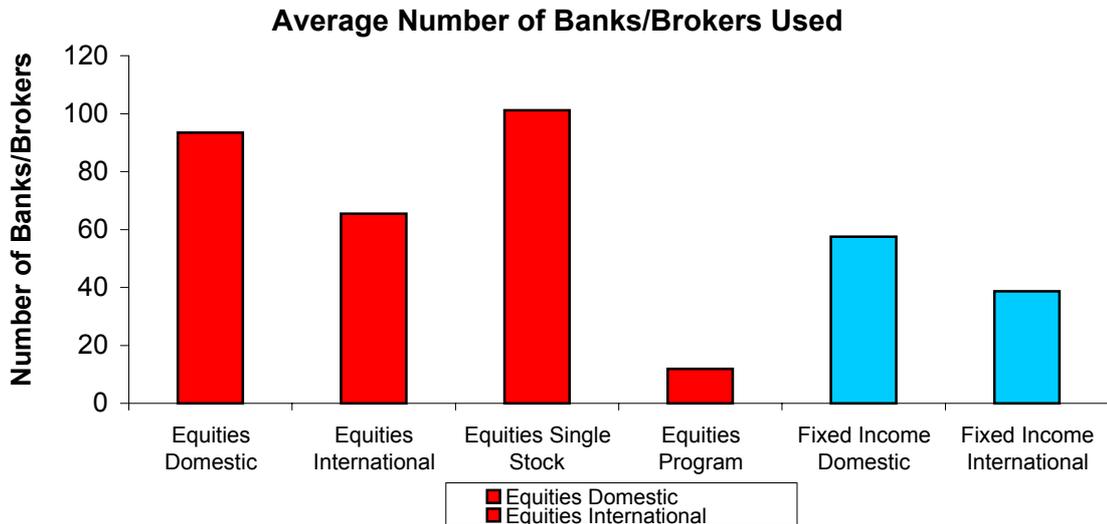


If the US were to reflect the European model, changes to the way Brokers, Clients and Client's back offices interact are essential as the instances of Outsourcing may increase. Almost every aspect covered by this study is likely to be impacted where there is an additional 'relationship' in the Operational process.

## 4. Market Analysis

### 4.2 Bank / Broker selection

#### 4.2.1 How many banks/brokers do you use? and formally rank based on Operational (back office) Performance?



The number of Brokers used for Equities ranged from a low of 10 to a high of over 300, indicating the diversity of Clients interviewed. Many Clients, particularly the largest (in terms of assets under management) use over 100 Brokers. All Clients however, tend to have a 'Top Tier' of Brokers that typically have 80% or more of volume. This Top Tier is usually between 10 and 20 Brokers.

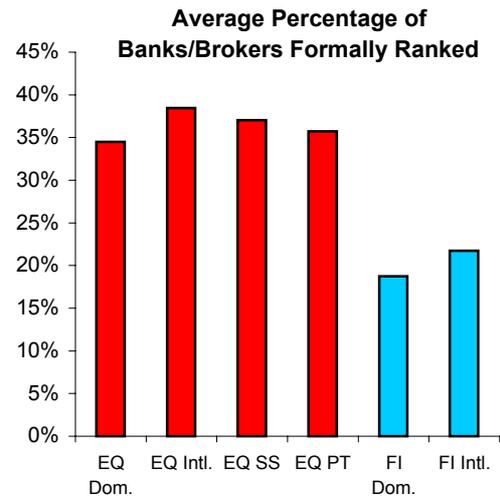
The main reason Clients used significantly more Brokers for Equity than Fixed Income products (despite greater coverage of Fixed Income products in general) is the need to execute equity business with smaller Brokers specialising in specific sectors such as healthcare stocks and related research, or a Broker that has an expertise in a particular market. Program Trading is typically concentrated into a small number of the larger international Brokers.

For Fixed Income, most Clients (unless Fixed Income focused) generally use less Brokers - averaging 50, and even less for Repos.

**4.2.2 Formal Ranking of Brokers**

Approximately a third of investment managers formally rank the operational performance of their Equity Brokers. These processes are typically primarily for internal use but are usually shared with the Brokers. The process is driven from operations who collate operational metrics on confirmation/affirmation rates, and fails, along with more qualitative measures of customer service.

Interestingly, as was also the case last year, the percentage who do the same for Fixed Income is half that of Equities.



**4.2.3 Frequency of Ranking**

Of Clients that do rank, the majority do so quarterly or annually (around a 50/50 split between these two time frames), and there was no material differentiation by product.

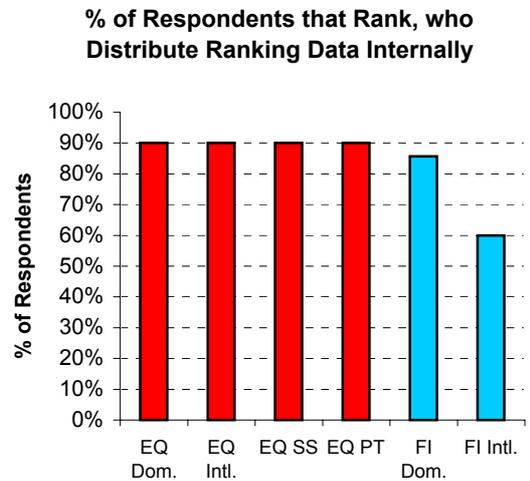
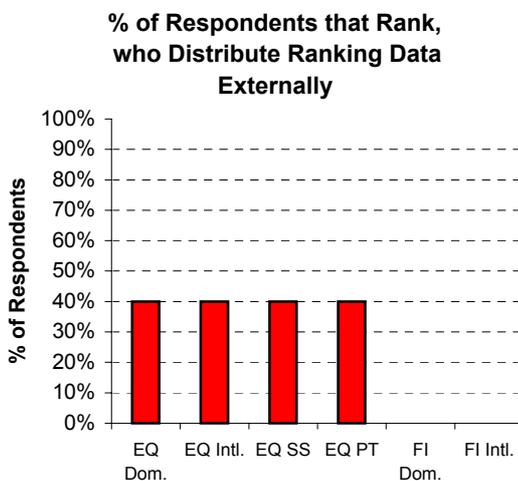
**4.2.4 Objective / Subjective Criteria**

For the criteria used for ranking, most Clients use both 'Objective' and 'Subjective' means to rank. A smaller number use subjective means only, but only a handful use objective means only. Thus, the general market wide view is predominantly subjective. Clients are investing in Broker performance measurement - either by building systems and/or developing roles to monitor performance, so in many cases, subjective feedback is as important as objective.

**4.2.5 How do you distribute Ranking Data?**

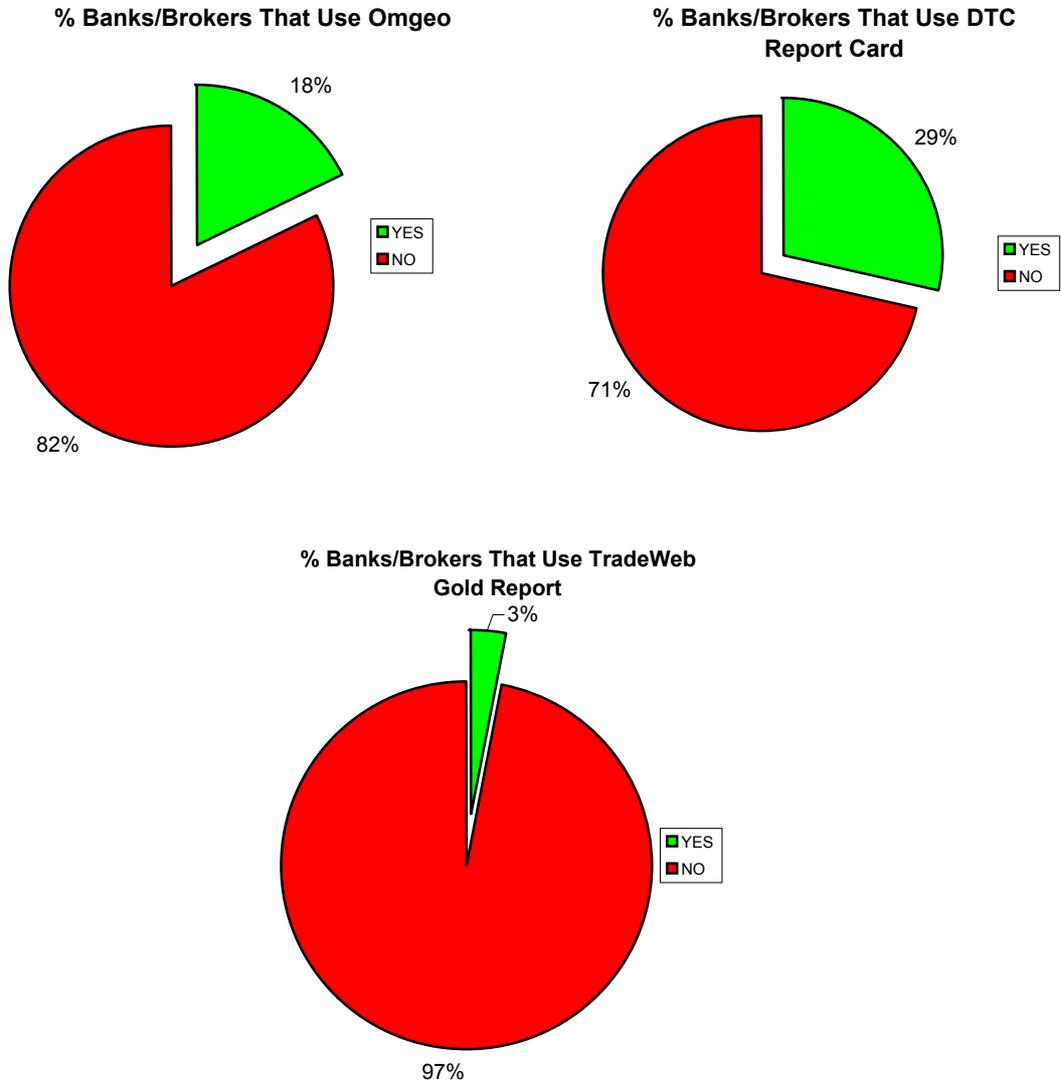
In nearly all cases where Clients rank Brokers, the results are fed back to Dealers/Fund Managers. This most often took the form of a monthly, quarterly or semi-annual report, but in some cases, Trading desks may ask Operations for Ad-Hoc reporting (sometimes statistically based).

Many Clients do provide Brokers with ranking information. This typically is presented and discussed at the operational review meeting.



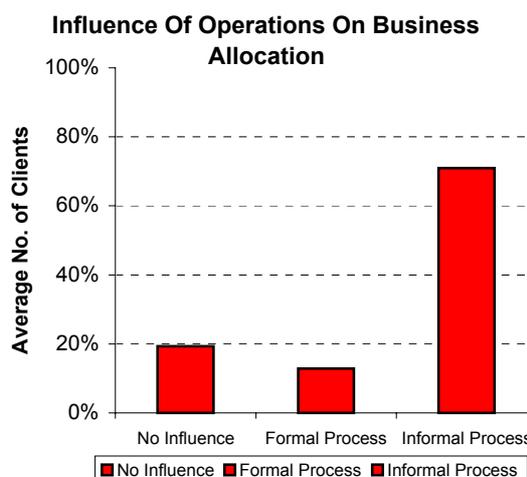
#### 4.2.6 Do you use external Benchmarking?

As shown below the external industry metrics received from DTC or from OMGEO or TRADEWEB applications do not feature significantly in these operational performance assessments. The vast majority of investment managers use information from internal systems, or that provided from custodian banks.



#### 4.2.7 What Influence does the performance of Broker Operations have in your decisions on business allocation?

While a few Clients indicated that business allocation was all front office driven (i.e., 'No Influence'), over 80% of Clients that responded stated that there was reasonable influence. The majority identified that this was an informal process, based around ongoing dialogue between operations and trading and/or investment managers on Broker performance. With particularly large, late or sensitive transactions (or where all other factors were equal), operations were often asked for their preference of Broker selection.



In only a minority of cases (16%), there is a formal process whereby operational performance represents a fixed percentage of a Broker voting process. Many other investment managers expressed an intention to move in this direction however.

#### 4.2.8 How does Operations prepare for their participation in this allocation process (metrics used, determination meetings, methodology/mechanism used)?

The majority stated that this was an informal process, based around ongoing dialogue between operations and trading and/or investment managers on Broker performance. With particularly large, late or sensitive transactions (or where all other factors were equal), operations were often asked for their preference of Broker selection.

At Clients where there is a more formal process, metrics on Broker performance were mostly often produced around settlement and/or fail performance, electronic connectivity and, in some cases, customer service.

#### 4.2.9 How (and how often and to whom) do you communicate feedback on Operational Performance?

##### a) Internally

Most Clients responded that informal feedback, as required, was most effective (*"Currently, feedback is provided when requested. However, efforts are underway to be more proactive in managing our Broker relations and improve processing with them. When asked for ad hoc feedback is given"*). Others are more formal however, e.g., *"Fail reporting by dealer is produced daily for the CEO. We are about to begin more detailed quarterly analysis, weighted by volume and further broken down by asset class which, will rate the operational performance and the cost of doing business"*.

##### b) Externally

Most Clients see one (or both) of two ways in which Brokers are appraised of the perception of their Operational Performance:

- As and when major operational issues arise: Clients place a lot of emphasis on addressing issues quickly, and in many cases judge (and/or rank) Brokers according to their response / reaction in this regard.
- Through the periodical Broker review meetings, where held.

## 4. Market Analysis

### 4.3 Operations Best Practice

#### 4.3.1 How do you define best practice in Operational Performance?

Clients were asked to stipulate what they saw as best practice for the criteria shown below. Given that a number of clients only covered either Equity or Fixed Income, we have combined the product responses under the general 'best practice' headings:

#### 4.3.2 Confirmation: Block

The vast majority of clients expect 100% of confirmations to be received on trade date, with virtually no distinction made by product. Some clients suggested 100% receipt of confirmations by Trade date + 1 as acceptable (across all products), but they are in the minority. The only significant exception was that more clients were prepared to allow some small leeway for Program trades (Domestic and International) - by suggesting that 95% receipt was sufficient - perhaps implying that with these large volume trades, accuracy was more important than timing.

#### 4.3.3 Confirmation: Allocation

The majority of clients (approximately 60%) expect 100% of confirmations on Trade Date, with no difference of expectation across products. Interestingly, a higher percentage of clients (approximately 35%) are prepared to give some leeway (receipt on Trade Date +1), when compared to Confirmations for Block.

#### 4.3.4 Affirmation

Client expectations are high for Affirmations, but with an apparent recognition that 100% on trade date is difficult to achieve. Most clients expressed a range of acceptability between 90-97% (although the lowest was 80% on trade date). There was no difference in expectation across product.

#### 4.3.5 Fail Rates

Clients place a high degree of emphasis on accurate settlements, and thus fail rates are expected to be very low, across all products. The average level of acceptability is approximately a 2% fail rate, but the range is typically between zero and 10%. The only exception to this is for International Program Trades, where the average level of acceptability is slightly higher, at around 4%.

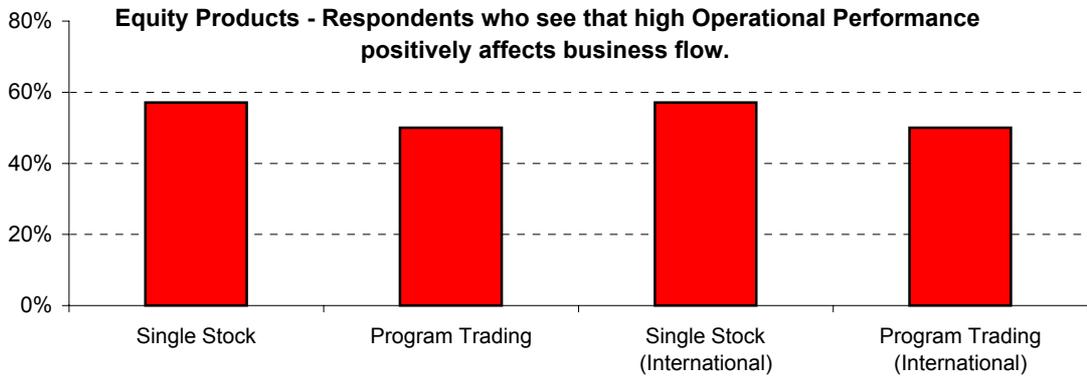
#### 4.3.6 Are there any differences for specific sub-products?

Clients generally observed that time and/or volume sensitive trades, or 'specialist' trades could often require a higher degree of efficiency. These types of trades were typically, Programs, Short-settlements, Mortgage backed deals or some 'sensitive' markets (countries).

#### 4.3.7 What is your opinion on Service Level Agreements? With whom do you have them with?

The vast majority of clients do not have SLA's with Brokers, nor do many place emphasis on SLA's. Nearly all respondents confirmed that SLA's are in place with Custodians, and in some cases Prime Brokers and/or internal clients - but that effective working relationships were more important than SLA's for Brokers specifically.

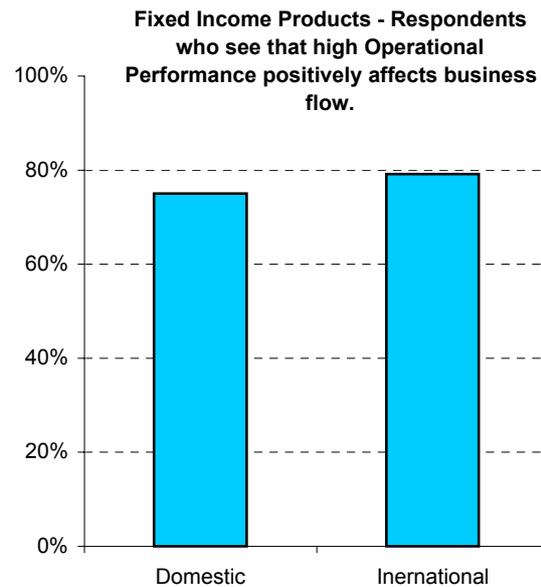
**4.3.8 Does high operational performance positively affect business flow? e.g. across the board improvement, excellence in specific products, a differential if all else is equal....?**



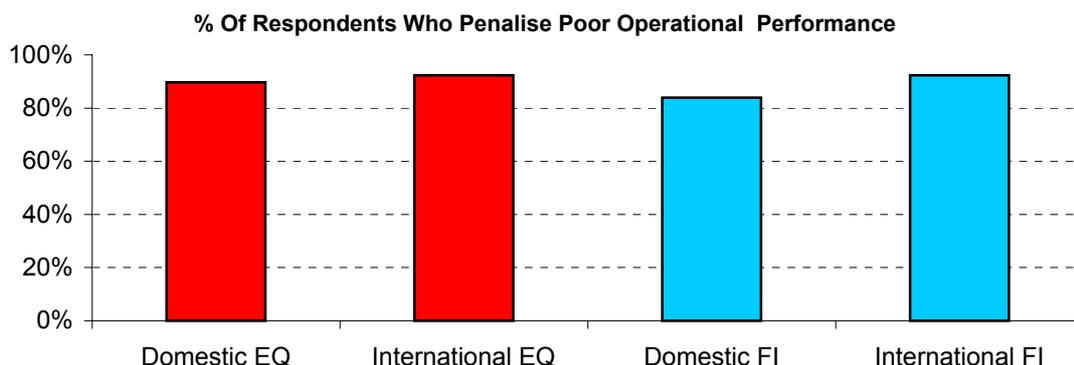
For Equities in general, approximately half of Clients interviewed believe that Operational excellence has an impact on business levels. With particularly large, late or sensitive transactions or where all else was equal, operational performance was typically referred to ensuring that the Broker chosen was likely to settle the transaction accurately and promptly.

In the Fixed Income product groups the views of the investment managers were that operational performance has an even more influential role in determining business flow, with nearly 80% seeing an opportunity for increased business levels.

These products are typically more manual than the equity equivalents and have more resulting problems with confirmation issues and fails to deliver.



#### 4.3.9 Managing Poor Operational Performance



Almost all the investment managers surveyed admitted to having penalized a Broker in the recent past for poor operational performance. This ultimately meant reduced or restricted business for the period to resolve the underlying issue, or for an extended multi month moratorium. Penalisation was slightly more prevalent for International trades.

#### 4.3.10 What are the main reasons?

The most common reason was either poor confirmation timing or accuracy. Clients that focus more on Broker ranking and performance see penalisation as a result of this and therefore some justification of the Client's investment in the monitoring process.

Several Clients also stated that poor settlement rates or 'general poor performance' can lead to penalisation.

#### 4.3.11 What action do you take to penalise poor performance?

Nearly all Clients interviewed are prepared to penalise Brokers for poor operational performance. Ultimately, this can take the form of reduced or suspended trading. Many Clients were keen to point out however that penalisation can take several other forms, such as:

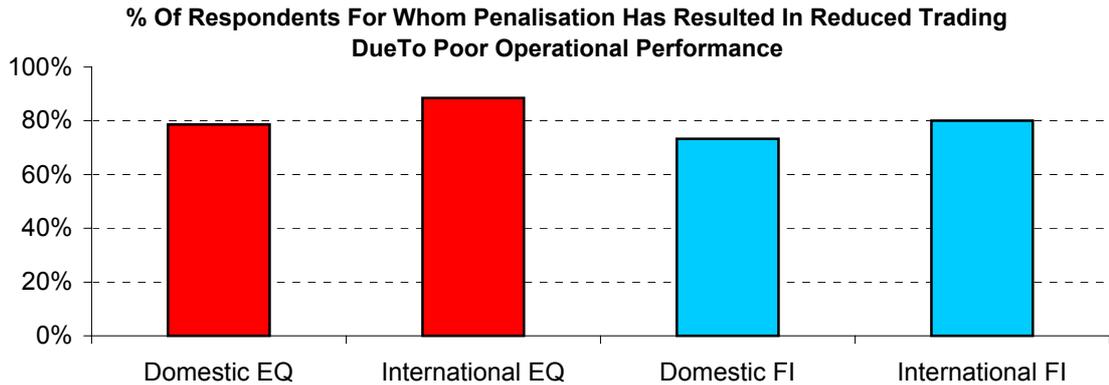
- Escalation to Dealing desks, Fund Managers or underlying Clients. This in itself was seen as adding to an overall picture of the Broker, which reflects badly on the counterpart relationship;
- Placing Brokers in 'Penalty Boxes' while issues are resolved;
- Downgrading the Brokers internal ranking, either against internal benchmarking and/or peer ranking;
- Asking the Brokers to regularly provide status updates on how they are addressing issues.

**4.3.12 When did this last occur?**

Responses varied, depending on the form of penalisation. Most Clients that see escalation and/or internal ranking or downgrading as a form of penalisation, naturally responded that the process was ongoing.

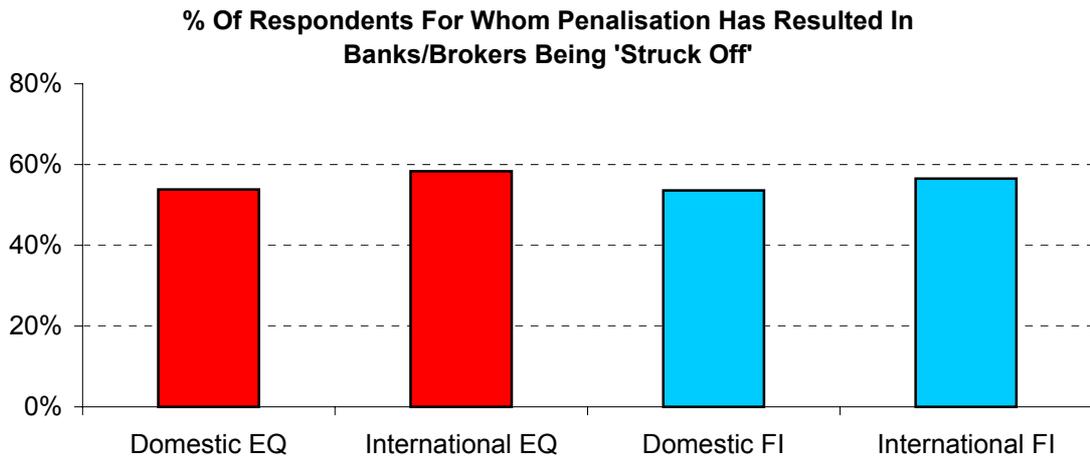
For those that saw a reduction in business or suspension only as penalisation, then responses ranged literally between *'not in the last ten years'* and *'recently'*.

**4.3.13 Has trading been reduced due to poor operational performance?**



Over 75% of Clients had reduced business as a result of poor operational performance. This was more evident for International trades than for Domestic, and Clients had slightly more emphasis on Fixed Income in this regard.

**4.3.14 Have Brokers been struck off due to poor operational performance?**



A lower percentage of the respondents disclosed that they had gone as far as having to strike off a Broker for a unacceptable operational performance issue, although many had used a penalty box concept or a limited moratorium.

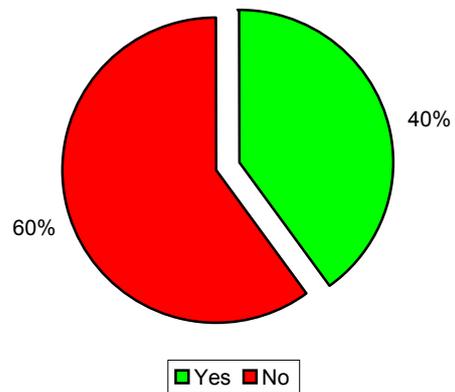
However, many Clients are prepared to impose the ultimate penalty for poor Operational performance, and the ratios by product are similar to that of reduction in business only.

**4.3.15 Of the Brokers which have been struck off, how many have been struck off in the last 12 months?**

Most Clients, while prepared to reduce business or even suspend, see this as a last resort only, and would prefer to address and resolve issues with Brokers.

While Clients acknowledge that suspensions are rare (in most cases), if 20 Clients have suspended a Broker, then the graph opposite suggests that at least 8 Brokers have been suspended within the last year.

**Percentage of Brokers 'Struck Off' In The Last 12 Months**



**4.3.16 What was the length of the penalty?**

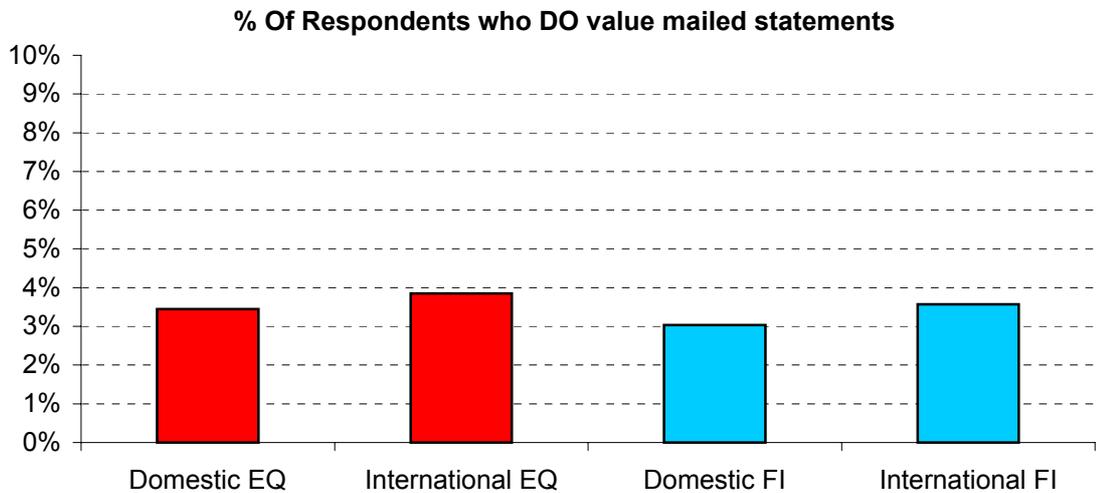
Suspensions, where implemented, have ranged from a low of "days", through "1-2 months", to "Varies" or "Up to a year". One client observed "Until we're confident the issue has been addressed."

**4.3.17 How often has this happened?**

Where Clients take the step of suspending business, the average seems to be once every 18 months to 2 years.

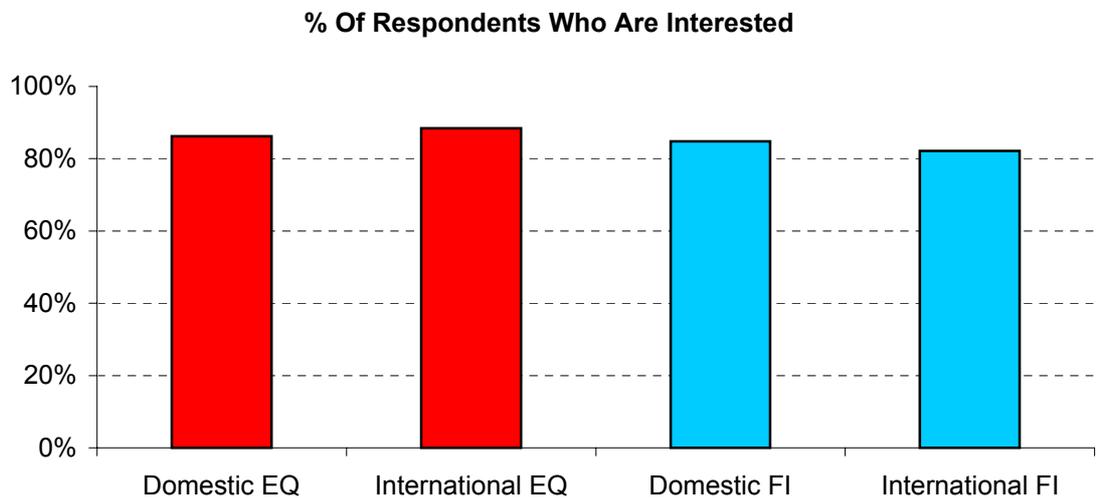
Electronic Statements and Confirmations

4.3.18 Do you value mailed accounts statements received from Brokers?



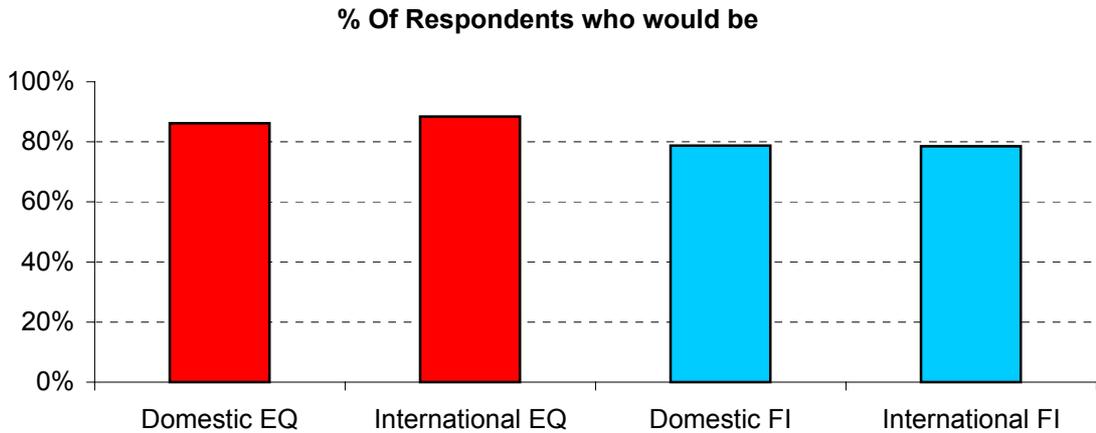
The overwhelming majority of the investment managers did not value in any shape or form the paper activity statements that continue to be delivered on a monthly basis to them. They were very interested in these statements being suppressed totally, or in an alternative electronic solution.

4.3.19 Would you be interested in receiving this information electronically in lieu of being mailed to you?



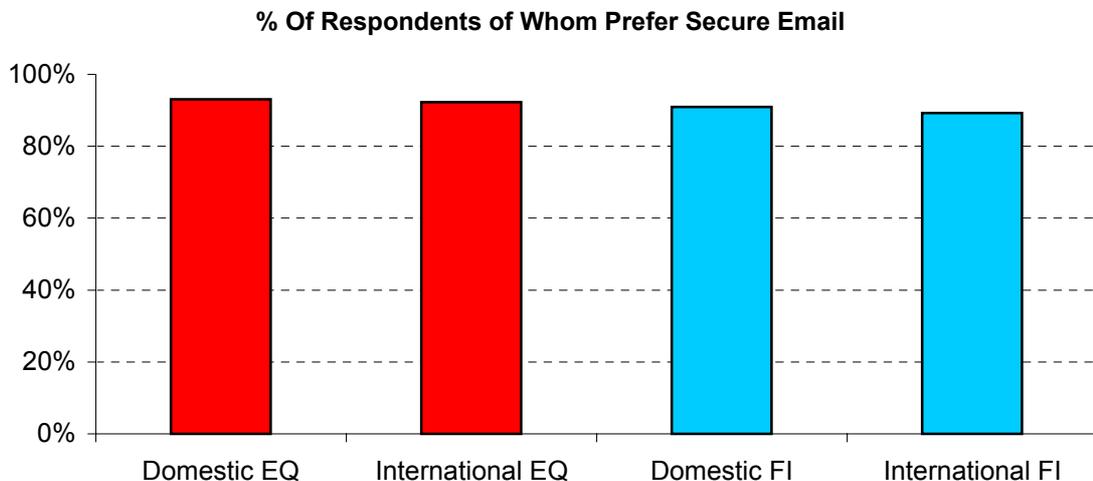
As above, replacing the paper activity statements from Brokers with an electronic equivalent was very strongly supported. Many investment managers state that the paper equivalent is usually dumped or retained but never referred to. Their views were that the cost of production, delivery and filing could be better deployed.

**4.3.20 Would you be agreeable to maintain a 'group' email address for Brokers to email notifications of account statement postings to?**



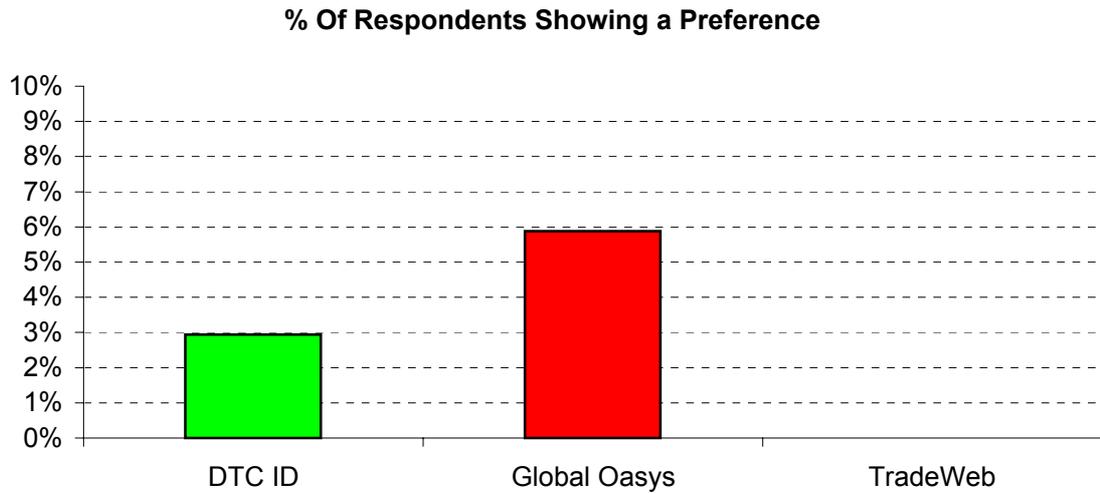
Many clients did not really want to receive the statements in any form, but understood there was a regulatory requirement for the Brokers to deliver them. As an interim solution, clients accepted that having a separate group email address for the delivery and storage of statements could be a workable compromise. This email address would need to be separate from existing accounts which would be severely impacted if this flow was integrated.

**4.3.21 Do you prefer secure email delivery?**



Again, if the compromise solution is to move to an email delivery mechanism for account activity statements and/or confirmations, then the vast majority of respondents stated that a secured email delivery would be required.

4.3.22 Do you require mailed trade confirmations for your trades confirmed electronically with Brokers via:



From a regulatory perspective, Clients understand the need for mailed trade confirmations for Global Oasys and Tradeweb, but not for DTC - across the board.

## 4. Market Analysis

### 4.4 Client Management

For the purposes of this survey, the participating Brokers agreed (and presented to the Clients) the following terminology:

- **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, Broker review meetings, new operations/process implementation etc.)**

#### 4.4.1 What are your requirements from a Broker's operations regarding CS/CRM staff?

##### Client Service (CS)

Clients expectations of CS are that they generally should be knowledgeable about the markets they are responsible for, that ideally there should be a single point of contact, and that they should respond quickly and effectively to issues, as they arise. Clients were clear and specific in this message, and some supporting quotes included:

- *"Specifically identified contacts and backups. Expect to raise issues to individuals who can resolve the problem without passing it on or needing to be reminded. Need resources who know our processes and operational details."*
- *"Above all knowledgeable staff with a good understanding of the products and markets, staff who can proactively, and accurately remedy an issue."*
- *"Knowledgeable and responsive contact, able to book or correct in a timely fashion trade confirmations, use ALERT, send confirmations T+1, have a strong attention to detail. Someone creative in handling non electronic allocations (institutional) via spreadsheets."*
- *"Quick response times on enquires, quick turnaround on confirms, understanding and communication of market specific issues, consistent point of contact or use of group emails/message facilities, a practice of taking ownership for issues."*
- *"Responsive knowledgeable resources with sufficient back-up and product coverage. Close relationship to sales and trading groups to ensure transparency of issues."*

##### Client Relationship Management (CRM)

For CRM, Clients stressed that being the focus of 'The Relationship', and a point for escalation are the key expectations of the CRM function. Clients like CRM's to be proactive in understanding the Client's business and subsequently ensuring that Clients needs are represented and followed through at the Broker.

Many Clients expect CRM to be relatively senior, empowered, professional and easily contactable. Expectations of the CRM role often differed by size of Client (but interestingly not by location). This prompted a variety of perceptions, including:

- *"We have a preference for Brokers who do reach out to build a relationship, who take the time to get to know our business, who provide feedback on our performance and some comparative analysis on our performance against our peers."*
- *"We require that the CRM is close to the day to day issues so if issues are escalated this is the single point of contact with whom we discuss resolution/actions and they are adequately briefed."*
- *"CRMs are a resource to make our problems go away. When successful these individuals know our business, and how our products and processes are aligned and operate and have built a relationship with us so when issues arise care is taken to expedite the best"*
- *"Influential resources, RM has to have the total relationship (all products, and both pre and post settlement processes), have a forward looking perspective on the relationship, looking ahead to where both the Broker and the Client will be 1 year from now."*
- *"Ability to escalate issues. Overall relationship review. Industry comparisons and future plans. Idea generation for us."*

#### 4.4.2 What specific improvements do you require from the level of service you currently receive?

##### **Client Service (CS)**

Clients appreciated this question and were quite focused and detailed in their responses. The main area for improvement was seen as reporting around failed trades (numbers, comparisons, reasons etc.). There were also some calls for greater clarity regarding organizational change, contact details, coverage and (sometimes) faster trade confirmations. Some Clients observed:

- *"Transactions that are expected to fail, or are known to have failed by whatever means need to be promptly communicated, be it a custodian DK or due to short inventory, or IM error."*
- *"More fail reporting that is pushed to us electronically with pull capabilities through a website."*
- *"We need to be kept informed of changes to the organisation contacts where multiple contacts are required. Want to improve fails/pre-matching reporting from Brokers, want greater coverage/backup for CS resources."*
- *"More automation of process and issue management, e.g. fails reporting off website/web portal, greater depth/coverage of CS resources, greater product transparency, one stop shop concept, or the ability to transparently field an issue to another area."*
- *"Faster trade confirmation. 100% consistent delivery of trade confirms to Clients who require them. Pro-active fails avoidance through the maintenance of good records and trade date confirmation of all blocs and allocations."*
- *"Improvement in the provision of fails reporting from Brokers. Improve fails management, the proactive analysis of why transactions fail, prevention etc. In general improve the content and availability of real time operational reporting."*
- *"The turnover in this position is high, and not communicated. Plus, we want one CS to call for any issues, we don't want to have to call NY for Treasury trades, Atlanta for Corps, and yet another place for Mortgages."*

### Client Relationship Management (CRM)

There was a clear and recurring message from Clients in this regard - that Clients like and want a CRM relationship, where possible. In instances where Brokers do have CRM, Clients are keen for this to be built upon, in order to better develop the relationship.

- *"For the larger Brokers who do not offer CRM, build this function/activity as it makes a huge difference. The relationships between those that do and those that don't are incomparable."*
- *"Those who do not reach out and build operational relationships are strongly encouraged to do so. However, the relationships need to be issue focused, and the meetings structured around improving transaction flow and reducing exceptions."*
- *"Roll out the CRM concept across all the top Brokers in this study. In general increase the frequency of contact from CRMs to the Client."*
- *"Brokers who do not have a CRM capability, need to do so, or handle the responsibilities in an alternative way."*
- *"Not every Broker we deal with has a CRM. The level of service and relationship can be drastically improved if more Brokers have a Client relation manager that we can go to with new initiatives or issues."*
- *"Implement such a service across more of the Broker population."*
- *"For those Brokers who implemented CRM, continue to invest in it, for those not doing so, embrace the concept."*
- *"CRM does not need to be separate function but needs to be connected with the day to day issues. Want two way feedback on performance."*
- *"CRMs could improve on the following: Yearly visits are recommended. This would help the CRM to better understand our business needs, and also build a better relationship between ourselves and the CRM. More pro-active communication rather than reactive."*

#### 4.4.3 How can Brokers CS/CRM staff excel in performance?

##### Client Service (CS)

There was a broad range of responses to this question. Some Clients (that typically already had established CS and CRM models) observed that less contact from CS suggested a more efficient relationship. Others observed that where no CRM exists, then some of the traditionally observed CRM functions were expected to be performed by CS.

Some of the more specific areas where CS can excel were identified as pro-activeness, quick responses to queries, availability and a Single Point of Contact. Some typically diverse, yet insightful observations included:

- *"Understand our business. Look at us as Clients. Smile over the phone - our goals are the same."*
- *"By being always available, by getting answers, by straight talking."*
- *"Less is more. Little interaction generally means a Broker is performing well. Timely turnaround on problem resolution is key."*

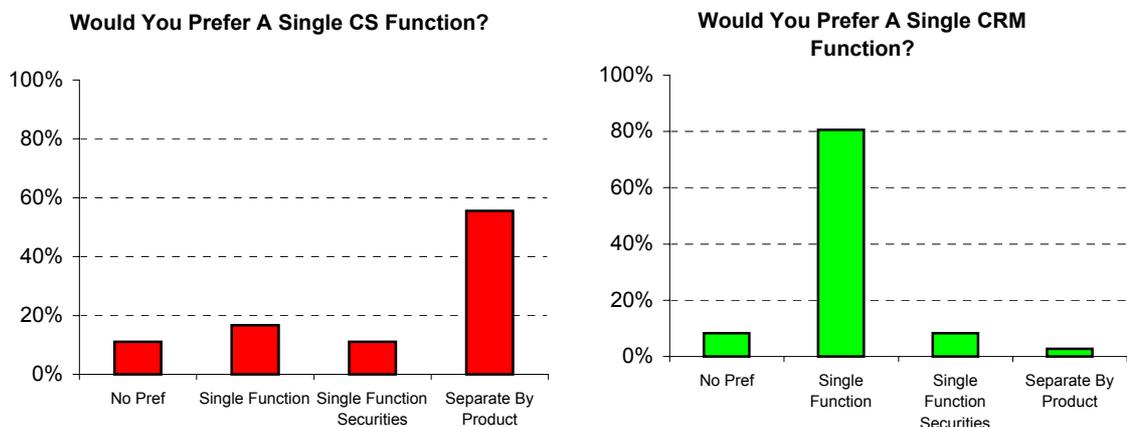
- *"If the Broker only has a CS and no CRM, we would expect the same level of service from that CS as we would if they were the CRM. We expect a Client Service contact to be able to effectively handle any trade and settlement issues we may be having."*
- *"By doing everything mentioned above superlatively and meeting with us regularly to discuss our mutual progress. We welcome feedback on our own performance and we are willing to take up issues with specific custodians if justified."*

### Client Relationship Management (CRM)

Clients generally want to see either the establishment or development of the CRM role. Where the CRM role does not exist, many Clients see the establishment of CRM as a means to excel going forward. Where CRM roles did exist, Clients want the CRM's to develop the relationship. This most often took the guise of gaining a greater understanding of the Client's business (and business drivers), being responsive and proactive; having a Global influence across the relationship and/or looking for ways to improve processes between Broker and Client.

- *"Building these activities is effective. All Clients are quite different and the only way to understand the issues and the best way to move forward is to truly know the Client from an operational perspective."*
- *"Understand our business. Work with us. Don't be the happy face that shows up to take us to lunch and forgets about us on the flight home."*
- *"Again, Brokers who have adopted a CRM set up have build the stronger relationships."*
- *"Process reviewer - find inefficiencies in the way we do business and make suggestions on how to improve."*
- *"We expect the CRM to have complete global influence. We expect a CRM to be able to resolve any issues with any trades being handled by any of the Broker's offices - regardless of the market. CRM's should be able to provide us with feedback on any trade."*
- *"(Some Brokers) have dedicated CRM resources, know what is going on at our organisation, have built strong operational relationships that build comfort and may a real difference it terms of how the Broker is viewed."*

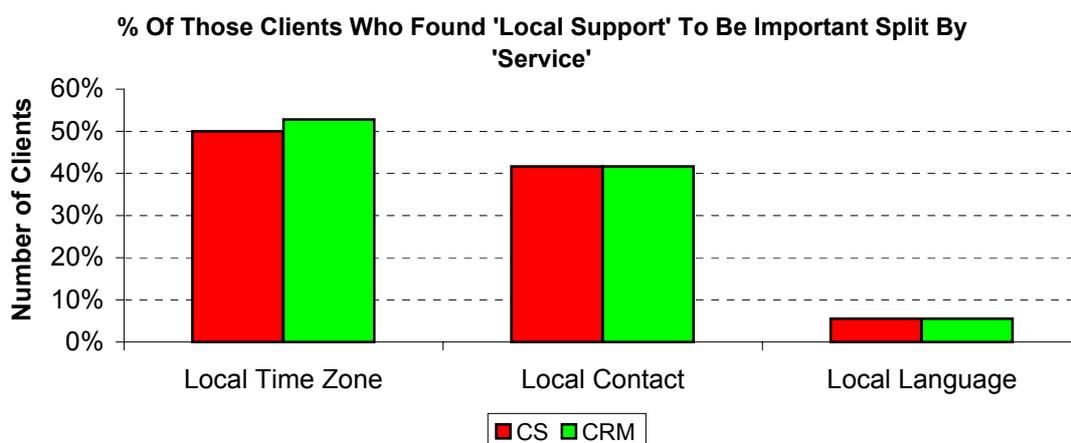
#### 4.4.4 Would you prefer a single CS/CRM function covering the overall relationship or product specific?



Client Services (CS) represent the Broker's day to day interests of issue management, resolution and communication with their Clients. The overwhelming majority of investment managers prefer CS services to be conducted by product experts, to ensure issues are understood and resolved accurately. The only caveat to this being a requirement for adequate coverage of roles, and communication to Clients of staff changes.

On CRM the reverse applies, Clients have a strong preference for one relationship manager covering all products conducted with the Broker. This individual is expected to reach out to the Clients on a regular basis and understand their business environment and constraints.

#### 4.4.5 How important is local support to you?



CRM resources are predominantly expected to be based in the local time zone of the investment manager, and if this is not possible, to at least provide coverage of the Client's working day. Similarly, CS resources are expected to be available for issue resolution throughout the working day of the Clients.

Local Language was considered unimportant but as many clients were processing domestic business only, this can be expected.

#### 4.4.6 Are there any support issues specific to your time zone/region/country that you would like to raise?

Clients were generally happy that coverage is not a major issue, although some West Coast based Clients wanted to ensure appropriate office-hours coverage by East Coast Brokers. Several Clients also observed some issues relating to coverage of Non-U.S. based trades. For example:

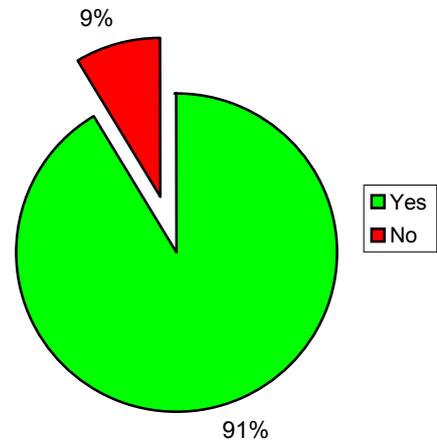
- *"Global system access is very important. We don't want our contacts (CS or CRM) to only be able to view trades in their markets. We want the Brokers to have the ability to access the trades and correct them as needed, regardless of the market."*
- *"For many Brokers there is an inability to see the open issues of another location that could be solved in the current timezone rather than having to wait until the following day."*
- *"No real problems, particularly with these Brokers. But Brokers who can truly operate globally, i.e., who can see and address operational issues from other regions will create a real advantage."*

**4.4.7 Do you currently have Operational Review Meetings with your Brokers?**

The vast majority of Clients have been visited by one or more Brokers specifically for discussions on operational issues. Some Clients have experienced only one or two such visits in their recent memory.

Few Brokers are seen to establish a regular program of visits, however, despite the general popularity of these meetings.

**% of Clients Who Currently Have Operational Review Meetings?**



**4.4.8 How often would you expect to have "Operational Review Meetings" with your Brokers' operations groups?**

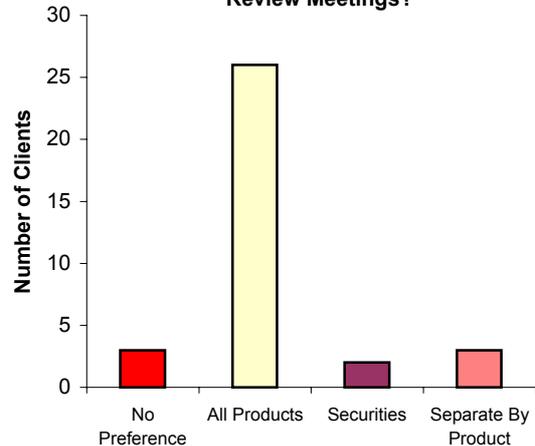
Clients express a clear preference for semi annual frequency - although several Clients observed that annual is acceptable, if there is little to discuss in the interim.

**4.4.9 If Brokers currently have "Operational Review Meetings", please indicate if they are single or joint product meetings**

The overriding preference is to have an operational review meeting that would cover all the products that the Client executes with that Broker. The meetings can be structured by product, but should be integrated into one meeting.

Clients would like Brokers not only to make the CRM available, but Operations managers also, that are able to cover each product and any related issues.

**What Products are Covered At The Review Meetings?**



**4.4.10 Who would typically attend the above meetings from your organisation?**

In most cases, the key attendees were identified as the people that we interviewed (Operations and/or Trade Support Managers). Clients also see an important role for specialists and technicians where specific issues need to be addressed.

#### 4.4.11 Who would you want to present from the Broker?

Nearly all Clients require attendance from the CRM (where a CRM exists for that Client). However, Clients are increasingly looking for attendance from CS individuals and teams. Many Clients place emphasis on building relationships between Operational teams, not least as a means to help each other understand processes, systems and pressure points.

#### 4.4.12 How effective are these "Operational Review Meetings"?

In the main, the belief was that these meetings are highly effective. The strongest complaints were reserved for those Brokers who had not invested in reaching out to schedule these meetings.

No Clients ranked the value of Broker Review meetings as 'Low'.



#### 4.4.13 How could these meetings be improved to make them more useful? From both sides? What preparation should be done?

Clients really appreciated this question, and responded with two clear and recurring requests:

1. Observe and adhere to proper meeting protocol: Agendas in advance, Minutes immediately afterwards and clear Communication of follow up and agreed points.
2. Make sure that the appropriate, effective people attend from the Broker (this may (or may not) include CS, technicians, market experts or even traders.)

#### 4.4.14 Operational Review Meetings

Client suggestions as to how meetings could be made more effective included:

- *"Agree an agenda, focussed on current operational issues, market changes, technology changes, organization/contact changes at the Broker - not a sales pitch!"*
- *"For the Brokers that do visit the meetings work well, emailed agenda/issues agreed in advance etc. Encourage those who do not visit that they are missing out on a opportunity to build a better working relationship."*
- *"More structure, agendas in advance, review based around statistical information on operational issues, better follow up on issues identified."*
- *"It would be very helpful if the Brokers sent us an agenda beforehand which identified specific areas in which they'd like to focus the discussions. Their own operations performance reports would also be very useful."*
- *"One or two Brokers have the content of these meeting focused on operational issues and these meetings are highly effective. One or two other Brokers have tried the 'meet and greet' alternative which is not effective."*
- *"Meeting should focus on transitional issues, not used as a marketing visit (dog and pony show). Brokers should be thinking how to improve our business."*

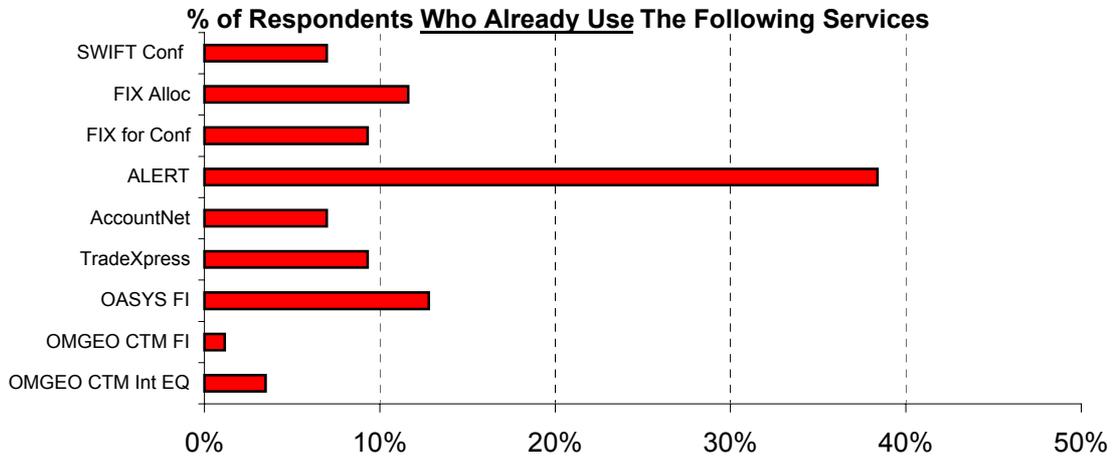
Operational Performance of Brokers - Market Survey - US Securities, 2004

| <b>4.4.15 MIS</b>                          | <b>What do you currently receive?</b>  | <b>What do you require (is it useful)?</b>                                      | <b>Preferred delivery method?</b>               | <b>Frequency</b>  | <b>Comments / Summary</b>                 |
|--|--|---|---|---|---|
| <b>Confirmation Timeliness</b>             | Just over half clients receive   | The majority view is that the information is useful (for a variety of purposes) | Most clients want via email, some by web access | Fairly even mix of Monthly, Quarterly or Annually (1 or 2 want daily) | <b>GENERALLY REQUIRED AND USEFUL</b>      |
| <b>Confirmation Accuracy</b>               | Clients receive little or nothing  | Hardly any clients require  | Clients that require, want via email.           | Those that do require, generally want monthly                         | <b>VERY LITTLE DEMAND</b>                 |
| <b>Settlement Efficiency</b>               | Clients receive little or nothing  | The majority of clients would like to receive                                   | Most clients want via email, some by web access | The majority require monthly  | <b>GENERALLY REQUIRED AND USEFUL</b>      |
| <b>Affirmation (US)</b>                    | Clients receive little or nothing  | Most clients would like to receive  | Most clients want via email, some by web access | The majority require monthly  | <b>GENERALLY REQUIRED AND USEFUL</b>      |
| <b>Fail Reports</b>                        | Just over half clients receive (in some form or another)   | Most clients would like to receive  | Most clients want via email, some by web access | Nearly all require daily, a handful less frequently                   | <b>GENERALLY REQUIRED AND VERY USEFUL</b> |
| <b>Market Updates</b>                      | Most clients receive nothing (but some get from Custodians)  | The majority would like, but some are happy with Custodian Info.                | Most clients want via email, some by web access | As needed   | <b>NICE TO HAVE, PREFERABLY TAILORED</b>  |
| <b>Information on industry initiatives</b> | Some receive, but generally infrequently   | The majority would like, but some are happy with Custodian Info.                | Most clients want via email, some by web access | As needed   | <b>NICE TO HAVE, PREFERABLY TAILORED</b>  |
| <b>Other</b>                               | Clients were generally happy that the list (above) supplied by Brokers covered any MIS reporting requirements they may have. |   |   |   |   |

## 4. Market Analysis

### 4.5 Future Plans

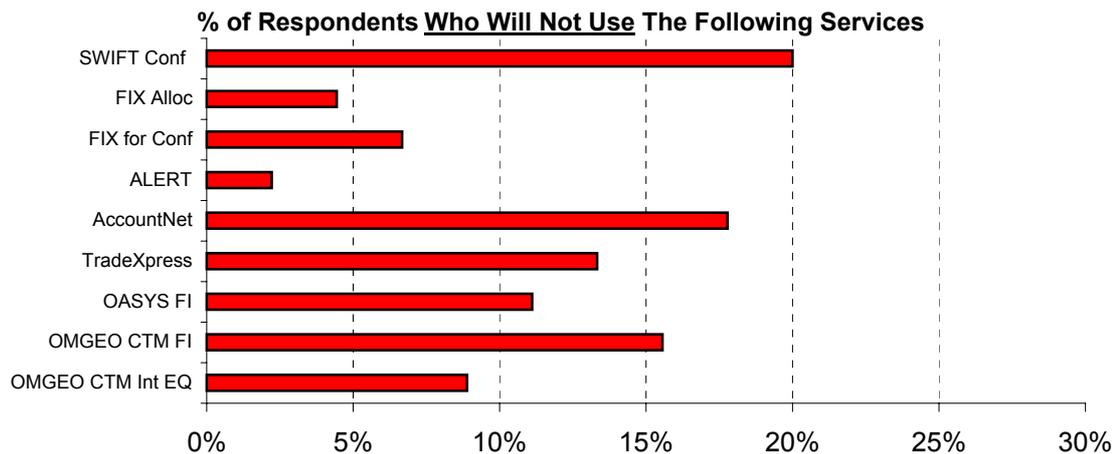
#### 4.5.1 What technology and connectivity plans do you have that need to be anticipated by your brokers? What are the timescales for these?



With the exception of ALERT, the investment managers in general were not early adopters of CTM or TradeXpress or AccountNet. A number of the larger Fixed Income players (in terms of Assets under Management), had committed to OASYS for Fixed Income.

ALERT has been adopted by almost the entire community for instruction delivery management, but for other systems, Client seem to be adopting a 'wait and see' policy.

#### 4.5.2 What technology & connectivity services will you not use?



The responses to this question represent the percentage of the total number of investment managers who have decided not to adopt these market tools.

In this regard, Clients are less likely to use certain Fixed Income products, e.g., TradeXpress and AccountNet, as they are seen as extensions of front office products.

#### 4.5.3 What can the Brokers do to improve Clients' STP Rates?

Clients identified some key areas where Brokers can help to improve STP rates. These were: Ensure accurate SDI updates, Expand the usage of OASYS (particularly for Fixed Income), Reduce the number of Acronyms used and Co-operate with Clients on their technology upgrades.

These were clear and resounding requests from Clients. SDI update (particularly ALERT usage) was the most common theme, but Clients strongly voiced other requests, which varied depending on their level of automation, organisational history etc. Requests included:

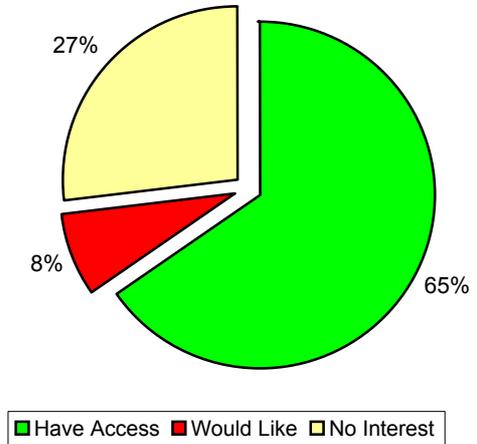
- *"Overall, want the US market to move to one solution Tradeweb/Omgeo. To clean up static data. To take instruction amendments from ALERT rather than waiting for a trade to D/K. Brokers need to consolidate acronyms and DTC clearing numbers to have one per institution."*
- *"Automate interfaces with ALERT, use ALERT Direct as intended. Work with it to improve it if necessary. Automate Fixed Income transactional processes in general and use OASYS automatically."*
- *"Extend the use of ALERT in a timely fashion. Focus on the improvement of trade date performance, getting the correct transactions key. "*
- *"Increase the number of Brokers using OASYS FI. Beware of cancelling transactions that require minor modifications (commission) and the impact on Client matching processes. ALERT - use updated ALERT instructions same day rather than waiting for trades to DK."*
- *"Confirm faster, (affirm by Trade Date), update ALERT with Broker instructions, pull down more rigorously the instructions of the IM from ALERT."*
- *"Brokers could be more consistent with formatting of their settlement instructions and ensuring they are consistent with ours. They could also be better at validating special negotiated commissions."*
- *"Brokers should utilize OASYS Direct for fixed income. They should also strive for a more timely acceptance of trades on OASYS. Also putting up DTC confirms in a more timely manner would help as well."*
- *"Use ALERT or develop a better alternative with tighter integrity and mandatory fields / field checks etc."*

**4.5.4 Would you like your Brokers to implement Client portals/website access?**

There are differing levels of interest (and needs) with regard to the use of Broker websites.

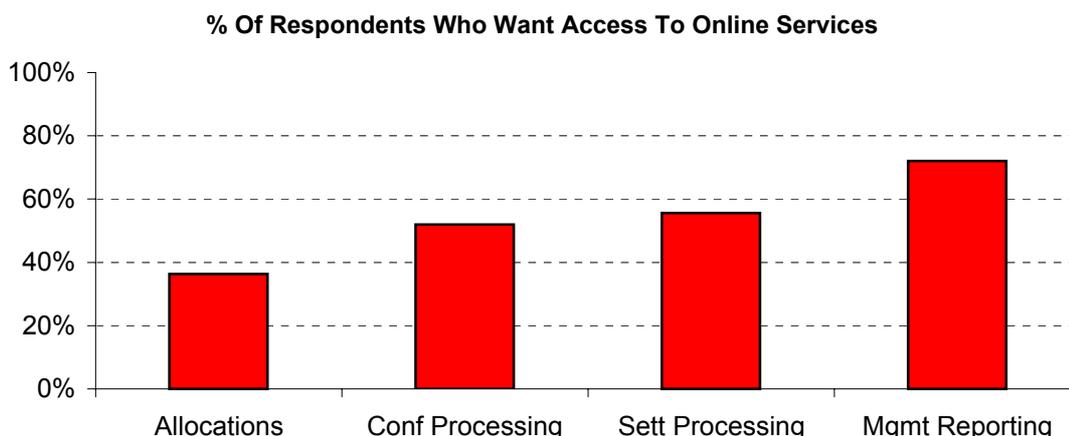
On the one hand, some Clients want to use downloads from Broker systems in the reconciliation process, while on the other hand some have absolutely no interest in Broker systems information.

**% Of Respondents Who Would Like Brokers To Implement Client Portals/Web Access**



The majority agree that web portals are valuable to communicate reference material on Broker instructions, organizational details, contact details for CS and CRM resources, and as a notice board for issues and status. However, many Clients caution the blind investment in web portal technology without carefully ensuring the value is perceived the same way by the Clients themselves.

#### 4.5.6 What online services would you want to access?



When looking in more detail at web content, for those Clients who indicated an interest in web portal access to Broker system, there was a greater interest in general management information on performance statistics etc than on transactional reporting of confirmations, allocations and settlements.

The cautionary note here was to ensure that transactional information is real time where possible, accurate, and where not, that this status was made clear to the Clients accessing the system.

Other reasons Clients may want on-line access included market information and changes, Broker contact lists and requests for pre-matching information.

#### 4.5.7 How do you want these services to work, e.g., "push/pull"? Are any Brokers providing the ideal solution?

For those Clients that expressed an interest in website access, the responses varied. For example:-

- *"We use Broker websites for prime Brokers, but have less interest in using the others. Do use websites for checking settlement information, but prefer fails information to be pushed via email or phone on a real-time basis."*
- *"The use of the web is supplemental to email delivery and phone media for problem resolution. Problems should be pushed too us via email delivery or phone if necessary, with nil returns where there are no problems. Websites are a back up to these processes."*
- *"Morgan Stanley uses a combination of both push and pull that works really well for settlements. They send a daily fail report that has links to their website that can be used for further research. This solution is one of the best we've seen."*
- *"Pull preference for MIS delivery and fails reporting."*
- *"Because of connectivity issues, we would probably only use the website for one-off searches of missing confirms, MIS, or settlement issues (i.e., 'pull'). We would use the website primarily to look up static data."*
- *"Pull. No Brokers and providing a complete package. Some provide settlement processing web portal reporting. Want real-time settlement status, management reporting, market updates."*

**4.5.8 What other plans do you have which will impact the support services you require from your Brokers? (e.g., outsourcing, 24 hour support, change in internal structure, change in business focus/volume)**

There is a lot of change underway at Clients' organisations and Brokers may need to work closely with their Clients over the coming year, to ensure that operational impact is minimised. Several Clients are looking at explaining the Global Nature of their business, typically along the lines of a 'pass the book' trading / settlement model. Other logistical changes that Clients are planning (and/or currently managing) included:

- Product Diversification (particularly into Fixed Income)
- Volume growth (mainly organic)
- Systems reviews and upgrades
- Integration of Operations offices, processes and or support systems.

**4.5.9 Are you involved in any Industry working groups, and if so what is the purpose?**

OMGEO (for Fixed Income CTM) and ISITC (FIX) groups are the most widely attended by Clients, although there is a considerable difference of opinion as to the value/impact of these groups, and also the extent to which Brokers - or someone - should take the lead in establishing common standards and practice.

**4.5.10 What is the single most important point you would like to raise to your Brokers, in terms of service provision?**

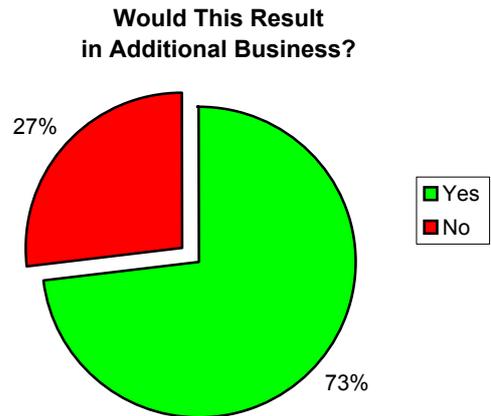
Perhaps surprisingly, there was a diverse set of responses to this question. In line with Clients desire for the provision of a CRM (or greater expansion of the role), the most common answer was to 'know your Client', particularly by way of providing a CRM service. Other than this, no other criteria received more than 4 'votes'. These can be summarised as:

- Confirmation Timeliness / Accuracy - impacting Settlements;
- Greater Automation (with a view to improving STP);
- Enhanced Pro-activity (by both CS and CRM);
- A higher degree of Responsiveness (both CS and CRM);
- More accurate / extensive use of ALERT;
- Better coverage (time zone);
- More efficient reporting (MIS);
- A single point of contact.

**4.5.11 Would this result in additional business for the Broker?**

While several Clients believe that Front Office criteria (and relationships) are the main business driver, over half those interviewed believe Operations have a voice and influence based on operational performance.

This is particularly true of specific trades that may require specialist knowledge and/or track record, such as a short settlement cycle, Mortgages or Derivatives or Program trades.



**4.5.12 Is there anything (regarding Brokers' Operational Performance) that has not been covered in this questionnaire, that you would like to comment on?**

Overall, Clients think that the survey covers all main aspects of Broker performance. Only one or two (very specific) requests were raised as potential areas for expansion or change - such as asking Brokers to use SWIFT MT548 reports on failed trades, or greater focus on interest claim management / standardisation.

## 5. Broker Ranking - Summary of Top 3 Banks

| Equities Core - US Domestic             | First           | Second          | Third          |
|---|-----------------|-----------------|----------------|
| Confirmation Timing - Single Stock      | Lehman Brothers | Merrill Lynch   | Morgan Stanley |
| Confirmation Timing - Program Trading   | Merrill Lynch   | Lehman Brothers | UBS            |
| Confirmation Accuracy - Single Stock    | Lehman Brothers | JP Morgan       | Merrill Lynch  |
| Confirmation Accuracy - Program Trading | Merrill Lynch   | Morgan Stanley  | UBS            |
| Automation (Allocation/Confirmation)    | Merrill Lynch   | Morgan Stanley  | JP Morgan      |
| Settlement Performance                  | Merrill Lynch   | Lehman Brothers | Goldman Sachs  |
| Fail Management                         | Merrill Lynch   | Goldman Sachs   | Morgan Stanley |
| Interest Claims                         | Goldman Sachs   | Morgan Stanley  | Deutsche Bank  |
| Static Data Management                  | Citigroup       | Merrill Lynch   | Morgan Stanley |

| Equities Core - US International        | First           | Second          | Third           |
|---|-----------------|-----------------|-----------------|
| Confirmation Timing - Single Stock      | CSFB            | Merrill Lynch   | Goldman Sachs   |
| Confirmation Timing - Program Trading   | Goldman Sachs   | CSFB            | Citigroup       |
| Confirmation Accuracy - Single Stock    | CSFB            | Goldman Sachs   | Citigroup       |
| Confirmation Accuracy - Program Trading | CSFB            | Goldman Sachs   | Citigroup       |
| Automation (Allocation/Confirmation)    | CSFB            | JP Morgan       | Citigroup       |
| Settlement Performance                  | CSFB            | Lehman Brothers | Merrill Lynch   |
| Fail Management                         | Lehman Brothers | CSFB            | Merrill Lynch   |
| Interest Claims                         | Goldman Sachs   | Merrill Lynch   | Lehman Brothers |
| Static Data Management                  | Lehman Brothers | Merrill Lynch   | Morgan Stanley  |

| Equities Client Management           | First          | Second         | Third         |
|--------------------------------------|----------------|----------------|---------------|
| Client Service (CS)                  | Morgan Stanley | Merrill Lynch  | CSFB          |
| Client Relationship Management (CRM) | Merrill Lynch  | Morgan Stanley | Goldman Sachs |
| Product Knowledge                    | Morgan Stanley | Merrill Lynch  | CSFB          |
| Regular MIS                          | Morgan Stanley | Merrill Lynch  | Goldman Sachs |

| Fixed Income Core - US Domestic      | First           | Second          | Third           |
|--------------------------------------|-----------------|-----------------|-----------------|
| Confirmation Timing - Government     | Merrill Lynch   | Lehman Brothers | Morgan Stanley  |
| Confirmation Timing - Municipal      | Merrill Lynch   | Morgan Stanley  | JP Morgan       |
| Confirmation Timing - Corporate      | Merrill Lynch   | Lehman Brothers | Goldman Sachs   |
| Confirmation Timing - High Yield     | Merrill Lynch   | Lehman Brothers | CSFB            |
| Confirmation Accuracy - Government   | Morgan Stanley  | Goldman Sachs   | Lehman Brothers |
| Confirmation Accuracy - Municipal    | Merrill Lynch   | JP Morgan       | Goldman Sachs   |
| Confirmation Accuracy - Corporate    | Morgan Stanley  | Goldman Sachs   | Merrill Lynch   |
| Confirmation Accuracy - High Yield   | Morgan Stanley  | Goldman Sachs   | CSFB            |
| Automation (Allocation/Confirmation) | Merrill Lynch   | Lehman Brothers | Goldman Sachs   |
| Settlement Performance - Government  | CSFB            | Lehman Brothers | Goldman Sachs   |
| Settlement Performance - Municipal   | Merrill Lynch   | Morgan Stanley  | Goldman Sachs   |
| Settlement Performance - Corporate   | Morgan Stanley  | Merrill Lynch   | Lehman Brothers |
| Settlement Performance - High Yield  | Goldman Sachs   | CSFB            | Morgan Stanley  |
| Fail Management                      | Lehman Brothers | Morgan Stanley  | Goldman Sachs   |
| Interest Claims                      | Goldman Sachs   | JP Morgan       | Lehman Brothers |
| Static Data Management               | Morgan Stanley  | Lehman Brothers | UBS             |

| Fixed Income Core - US International | First          | Second          | Third           |
|--------------------------------------|----------------|-----------------|-----------------|
| Confirmation Timing                  | CSFB           | Morgan Stanley  | Merrill Lynch   |
| Confirmation Accuracy                | Morgan Stanley | CSFB            | Goldman Sachs   |
| Automation (Allocation/Confirmation) | CSFB           | Morgan Stanley  | JP Morgan       |
| Settlement Performance               | CSFB           | Morgan Stanley  | Lehman Brothers |
| Fail Management                      | CSFB           | Lehman Brothers | JP Morgan       |
| Interest Claims                      | UBS            | Citigroup       | Morgan Stanley  |
| Static Data Management               | CSFB           | Merrill Lynch   | Morgan Stanley  |

| Fixed Income Client Management       | First          | Second         | Third           |
|--------------------------------------|----------------|----------------|-----------------|
| Client Service (CS)                  | Morgan Stanley | Goldman Sachs  | Merrill Lynch   |
| Client Relationship Management (CRM) | Merrill Lynch  | Morgan Stanley | Lehman Brothers |
| Product Knowledge                    | CSFB           | Merrill Lynch  | UBS             |
| Regular MIS                          | Merrill Lynch  | Morgan Stanley | UBS             |

## 6. List of Participating Clients

### All Clients Interviewed

- JP Morgan Fleming Asset Management
- Citigroup Asset Management
- Strong Capital Management
- Putnam Investments
- Wellington Management Company
- Franklin Templeton
- Standish Mellon
- Brandes Investment Partners
- T Rowe Price
- PIMCO
- Lazard Asset Management
- Nicholas Applegate
- Janus Capital
- AIG Global Investment Group
- UBS Asset Management
- American Express Financial
- American Century Investment Management
- Capital Guardian Trust
- Alliance Capital Management Corporation
- Jennison Associates
- Credit Suisse Asset Management
- Maverick Capital
- Fisher Francis Trees & Watts
- BlackRock Financial Management
- Goldman Sachs Asset Management
- Deutsche Asset Management
- Capital International
- 40|86 Advisors
- Trusco Capital Management
- Morgan Stanley Investment Management
- GLG Partners
- Barclays Global Investors
- Oppenheimer Funds Inc
- Merrill Lynch Investment Management
- Western Asset Management
- Fidelity Investments

## 7. Z/Yen Limited

Z/Yen is the UK's leading risk/reward management consultancy.

Risk/reward management is the application of risk analysis and return incentives to strategic, systems, human and organizational problems in order to improve performance. Z/Yen believes that the intelligent management of risk is the basis of significant reward. By recognizing, understanding and managing risks, more risks can be assumed and performance increased.

Z/Yen applies risk/reward management in the public, private and not-for-profit sectors, with particular expertise in:

- Financial Services
- Technology
- Not-for-Profit Sector
- Professional Services
- Business Intelligence

Within Financial Services Z/Yen performs benchmarking and performance analysis, market surveys, strategic planning (outsourcing, re-engineering, relocation) and market intelligence. Z/Yen's benchmarking surveys encompass European securities, US securities, Global Treasury products and Global OTC Derivatives.

Z/Yen's work has enabled banks and other financial institutions to:

- Understand whether economies of scale efficiencies have been realized;
- Identify in which products or businesses they are either efficient or inefficient processors;
- Identify where in the trade processing lifecycle they have scope for improvement;
- Identify and quantify "best of breed" and determine efficiency targets;
- Analyze progress and trends on a year-on-year basis;
- Monitor relative performance for management.

For more information on Z/Yen, visit our website [www.zyen.com](http://www.zyen.com) or call Jeremy Smith on +44 (0)20 7562 9562.