



**OPERATIONAL
PERFORMANCE OF BROKERS
Market Survey
Treasury Products
2004**

Summary of Findings

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1. Introduction

1.1 Scope of Study

This document is the report of the Operational Performance of Brokers - Market Survey - Europe and U.S. 2004 carried out by Z/Yen Limited for a consortium of 10 major Banks.

The study was performed based on individual interviews using a structured questionnaire, as developed by Z/Yen and the participating Banks. 51 leading Asset Management companies, Corporates and Hedge Funds (the Clients) were interviewed between March 2004 and May 2004.

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

1.2 Approach

The approach adopted for this study was to:

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

1.3 Confidentiality of Results

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

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

2.1 Executive Summary - Overall Summary of Findings

2.1.1 Background

51 clients were interviewed between March and May 2004. Clients interviewed were Investment Managers (35), many of whom have Pension/Insurers as end-Clients, Corporates (11) and Hedge Funds (5). 29 clients were based in the UK, 17 were in Europe and 5 in the US (of which one client had a back office located in India). All Investment Managers and Hedge Funds have a global focus of investment (and 82% are responsible for managing over US\$50BN of Assets). Nearly all Corporates were Multi-Nationals.

This report is primarily focused on Foreign Exchange (FX) and Money Market (MM) activity. A brief summary specifically relevant to Currency Options activity is included separately at the end of this section.

2.1.2 Key Messages

- **Operational Performance, while an important part of the overall front-to-back service received from banks, is generally not seen as a key determining factor in business allocation.** For FX particularly, Front Office driven criteria, e.g., pricing, execution and research, and relationships form the basis for most business allocation. This is also true of MM, although in a few cases, the MM (Funding) function was performed within either Operations or a combined Treasury/Back office environment. The provision of **Credit Facilities** was a notable factor in business allocation.
- There were only a handful of clients where Operational Performance was included as a factor in (percentage of) **the bank/broker vote**.
- **Core Transaction Processing is considered critical** to clients, particularly with the history of perceived simplicity and automation of FX/MM products. In general, clients seem to place greater emphasis on a Bank's ability to process and settle transactions without the need for communication, rather than a substantial CRM or even CSM relationship.
- The role of the **CRM (Customer Relationship Management) is considered important** to clients, particularly as a single point of contact (which is exacerbated where no CSM exists), an escalation point, as the '*Clients' face at the Bank*' and also as the provider of more detailed and frequent MIS. Unlike Equities and Fixed Income securities processing however, the CRM was more frequently identified as being a relationship with the Front Office.
- **Client knowledge** is desired to ensure a satisfactory relationship. Clients often provided favourable ranks and/or commentary for Banks that had taken the time to understand the client's structure, business dependencies and stress points.
- There is **not a significant difference** in the overall rankings between FX and MM, although in most criteria, MM averages are slightly lower. Clients in general rank satisfactory or better and see few major areas of differentiation between the banks surveyed.

- Clients assume and/or expect Electronic Trade Confirmations (**ETC's**) on **trade dates** for all products and from all global trading locations. Client expectations on turnaround times for ETC's have traditionally been aggressive, but are **more often assumed than written as service criteria**.
- Clients with smaller teams in their FX/MM back office and those with integrated Treasury/Back office functions tended to have **less contact with (and less perceived need for) CSM/CRM** than larger organisations.
- The **location of the client does not demonstrably impact** the service levels or criteria expected from banks.
- There is **negligible interest** in the use of Bank's Internet Systems for FX/MM reporting. **Reporting in general is not seen as a critical aspect** of the relationship - many clients do not receive any MIS reporting, or indeed any other form of reporting per-se, although often remarked that reports would be "nice to have". Clients prefer information to be provided on a succinct email with relevant attachments.
- **Very few clients are building or updating in-house systems** to help them monitor Bank's Operational Performance, although several clients are looking to **enhance their own efficiency** by implementing/enhancing systems for certain aspects of the FX/MM process.
- There are few instances of **Service Level Agreements** (SLA's) being in place between Banks and clients for FX/MM. Excellence in the processing of these products is very often assumed as part of the (Front Office or Credit Department) business allocation process.
- There is **negligible requirement** for Banks to supply copies of their Business Continuity Plan as part of the relationship. The question often prompted a "*maybe we should be though*" type of response.
- Several, typically larger clients are involved in, or keen on their Banks being involved in **Industry working groups**. Most clients were aware of CLS for example, but not fully aware of potential benefits for them.

2.1.3 Core Transaction Management (Operations Best Practice)

Clients were asked to apply a weighting to 5 categories of Core Transaction Management (Operational Performance). The results were as follows:

	Foreign Exchange	Money Markets
Confirmation Timing	26%	26%
Confirmation Accuracy/matching	26%	26%
Settlement Performance	23%	26%
Post Settlement performance	13%	11%
Static Data Management	12%	11%

As can be seen, the key requirement is for quick and accurate turnaround of confirmations. With only a few exceptions, these were all expected to be ETC on trade date, often within 2 hours. Additionally, clients placed a higher degree of emphasis on Settlement performance than in previous surveys.

Clients were also asked for their "single most important" requirement from a bank's operations. Responses were:

- 1 Confirmation timeliness and/or accuracy. This was closely followed by:
- 2 Good settlement performance. Generally greater emphasis on settlement than CSM/CRM - when compared to previous Equity and Fixed Income surveys.
- 3 Static Data Maintenance and timely updates. There was a common theme among clients that while they had liability for this process, they had limited accountability. That is to say, clients knew they were responsible for sending SDI updates out, but felt they then lost control of the updates as a result of (often) inefficient processes at the banks.
- 4 Consistent coverage (across offices and departments). This included focus on speedier resolution of problems, and enhanced communication between offices in different locations.
- 5 High Quality CSM/CRM.
- 6 Single Point of contact.
- 7 Accuracy in all areas.
- 8 Better communication between front and back office.

2.1.4 Customer Management

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

- **Client Service Management (CSM):** 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 5 categories of Customer Management. The results were as follows:

	Foreign Exchange	Money Markets
Customer Service Management	39%	39%
Customer Relationship Management	31%	30%
Linguistic Skills	8%	10%
Product Knowledge	13%	14%
Regular MIS	8%	7%

Operational "transparency" is highly valued. In the general absence of Service Level Agreements, clients like to have access to a strong day-to-day and CRM (Customer Relationship Manager) relationship, but are equally happy if there are no problems to warrant such contact.

The CSM and CRM roles at the Bank are important ones for clients (but not critical - see below) - many of whom would prefer to be represented by a dedicated (single point of contact) CSM and/or CRM function. Clients expect banks to invest in high quality people for these roles, and to avoid constant rotation or change of personnel. There was less distinction between CSM and CRM than in previous surveys - "We have a specialist CRM at just 1 broker", "We have a CSM/CRM role combined".

Expectations of the CSM teams were often expressed in terms of systematic efficiency - "Same day trade confirms", "FX deals to be confirmed in Crossmar", "100% settlement". Conversely, CSM were often seen as a critical relationship contact (particularly among Corporate clients and/or smaller broker-facing teams), with the need for CRM only for escalation - "Knowledge of our accounts", "Be an escalation point", "Solution centres are a good approach".

CRM's are expected to represent the client within their own organisation, and also to keep clients informed of changes, both at the bank and within the marketplace.

The key individual qualities of CRM's identified by clients are: Being a point for escalation and arranging and following up on review meetings. Many comments however, suggested that CRM, while important, was not as critical as Core Transaction Processing and (supporting) CSM. Quotes included:

- *"Some brokers only have CSM, but for CRM we would expect the same plus greater escalation ability"*
- *"No real CRM issues for Treasury"*
- *"CRM is not really pushed on the MM side"*
- *"Don't need CRM if CSM is good"*
- *"We have a CSM/CRM role combined, which generally suits us"*
- *"If CSM is performing well the we don't need to access CRM much"*
- *"We don't have any (CRM) - MM in general is not highly developed in this regard"*

This theme was continued with regard to 'adding significant value' and also 'future CSM/CRM requirements. Clients are looking for greater automation - within their own organisation as well as throughout the banking community. Quotes included:

- *"They should all be the same - so value-added doesn't really apply"*
- *"Manage client expectations, as we increasingly automate and update our systems"*
- *"Efficient use of SWIFT MT300"*
- *"Same day trade confirms - the flexibility to use CMS"*
- *"Silent Running - we like it all to run smoothly"*
- *"By providing such a good service that we never have to escalate to CRM"*
- *"There is nothing that really differentiates brokers' services"*
- *"By communicating internally (CSM with CRM) before they hold review meetings."*

2.1.5 Linkage of Operational Performance to Business

Operational Performance, while an important part of the overall front-to-back service received from banks, is generally not seen as a key factor in determining the choice of banks. For FX particularly, Front office criteria (e.g., pricing, execution and research) and relationships form the basis for most business allocation. This is also true of MM, although in a few cases, the MM (Funding) function was performed within either Operations or combined Treasury/Back office environment. The provision of Credit Facilities was a notable factor.

Only 1 or 2 clients included FX/MM in the systems and/or processes they have in place to measure Operational Performance of Equities and Fixed Income products.

2.1.6 Internet portals

There was virtually no interest in the use of Proprietary links to Banks - indeed most clients had minimal reporting requirements anyway, with many reporting criteria listed in the questionnaire seen as 'nice-to-have' only.

2.1.7 Top Clients/Overall Differential

In most cases, individual bank Top Clients' results show higher rankings than the average of all 51 clients, perhaps indicating good service tier differentiation, and/or a higher level of expectation from these clients.

2.1.8 Penalisation of Banks

In most cases, 'penalisation' was perceived by clients as a need for escalation only. There was quite a low incidence of Banks having business reduced or suspended as a result of poor operational Performance in Treasury products. As many clients managed Bank Relationships through their front office, the threat of (or carried out) escalation usually had the desired impact/effect.

2.1.9 Strategic Direction - Initiatives Planned

Some clients are looking to introduce greater efficiencies through further automation. Unlike Equities and Fixed Income however, this does not seem to have such a high degree of focus.

There was a mixed reaction to the benefits (to clients) of FX Continuous Linked Settlement (CLS). Some clients saw no benefit (other than to Banks) while several clients were interested but felt they had not received enough education/selling from Banks.

2.1.10 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 also be invited to attend a workshop/presentation of findings.

This survey can be repeated in 2005, or as a bi-annual process in 2006.

2.1.11 Currency Options.

Most clients surveyed had insufficient activity in Currency Options to be able either to rank or to supply qualitative commentary.

Few clients were able to rank, but for the limited number that did, the general feedback was one of satisfaction and very little differentiation between the banks. In most cases, clients used a much smaller pool of banks for Currency Options.

2.1.12 General Client comments/observations.

During the client interviews, Z/Yen asked clients if they had any additional input, either on the general Treasury product, our survey structure (participating banks / clients) and also the questions (were they the right questions, were there any that we didn't ask but should have etc. ?)

On Operational Service for Treasury Products, client observations/quotes included:

- *"It's good that our banks and brokers have recognised the need for more client focus for FX/MM. Why are they only doing it now though?"*
- *"UK based banks/brokers seem more keen to explore what the market is doing/thinking -*
- *"FX and MM tends to be more of a 'gut feel' for performance measurement, but we are starting to talk to banks regarding more formal rankings. On the whole though, there are not many issues".*
- *"FX in general seems way behind securities - we should see more FX benchmarking"*
- *"SLA's are new to Money Market world. Also, for FX, there seems to be a consistently poor relationship between Banks/Brokers Operations and THEIR front desks (90% of the time). This is particularly notable with regard to mis-matches".*
- *"Do Banks treat us (a Corporate) the same way they treat back offices at other banks?"*
- *"Thankfully, problems in Treasury products are few and far between"*

On the Z/Yen survey process, client observations/quotes included:

- *"We welcome more surveys like this"*
- *"We found the survey useful in formulating the rating of our banks"*
- *"We didn't like the separate US/Europe questionnaires for Equities and Fixed Income so this is better"*
- *"Z/Yen should hold user workshops by size of client, so issues are comparable."*

3. Market Analysis

3.1 Market Overview

1. Location

In Total Z/Yen interviewed 51 clients based in 10 different countries. The majority of clients (29) were based in the UK (typically London). Of the remainder, 5 were based in the US (but 1 had outsourced to India), 3 in France, 3 in The Netherlands, 3 in Switzerland, 2 in Ireland, 2 in Italy, 2 in Belgium and 2 in Germany. Of these clients, 1 interview was with a client who had outsourced its back office Operations, and 1 was with an outsourcing agent.

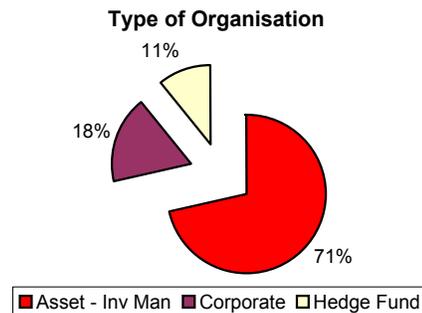
2. Interviewees

The interviewees were typically Senior Operations Managers, Treasury specialists or (particularly at some Corporates) Front Office and Senior Operations combined. The vast majority of interviews were conducted face to face, but a handful of clients (due mainly to constraints on their time) were interviewed by telephone or submitted an email response.

3. Organisation

The majority of clients (35) were Asset or Investment Management Companies, several of whom had Pensions/Insurers as end clients. 11 clients were Corporates and 5 were Hedge Funds - providing a broad range of responses.

Of the Corporates, most (9) were Multi-National in their focus. The remaining 2 were significant sized domestic-only organisations.

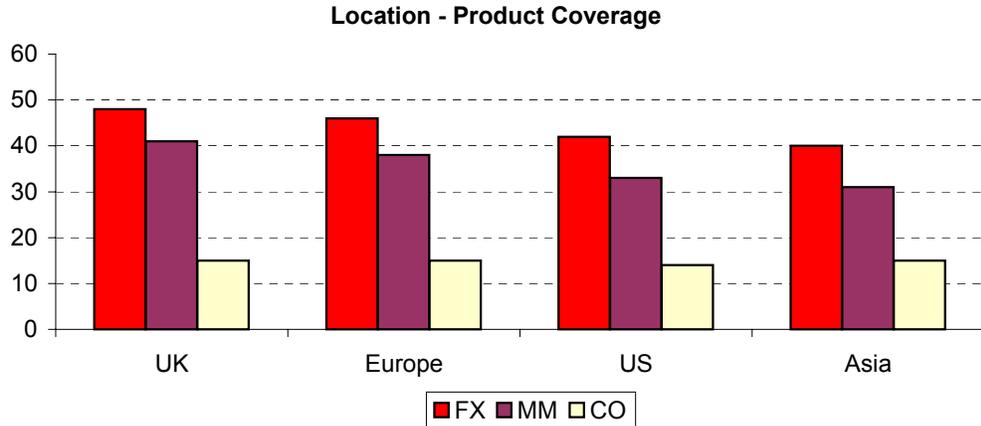


4. Product Coverage

The majority of clients traded both Foreign Exchange (FX) products and Money Market (MM) products, but there was less activity in Currency Options. In general, most activity was in FX, with client volumes ranging between 5 and 300 FX trades per day.

Money Market products (supporting Daily Funding), generally had lower volumes. A typical split in volume between FX and MM was 75% / 25%. Currency Options volumes were much lower, with fewer brokers being used.

As the graph below reflects, most clients had a global coverage, in terms of markets and currencies traded. Some clients (or interview coverage) did not include FX, but this was very uncommon.

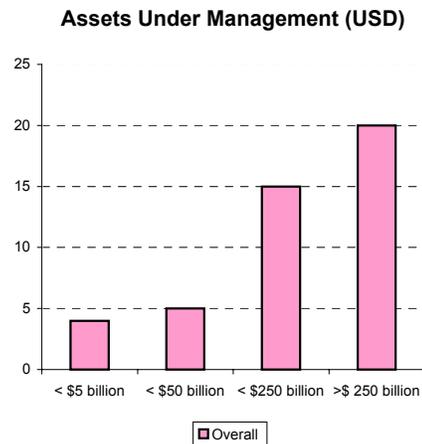


Approximately half of the individuals interviewed that had FX responsibility also had responsibility for Equities and/or Fixed Income. This supports the findings of the Equity and Fixed Income survey, where only around half were involved with FX/MM. The number reduced slightly for MM coverage but is still significant - demonstrating the fact that FX and MM are most often used to support Equity and Fixed Income trading.

The number of interviewees that were responsible for Currency Options as well as either Equities or Fixed Income was much lower.

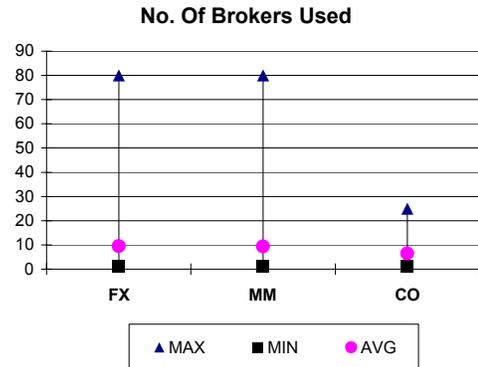
5. Assets Under Management

The majority of the most influential clients were included in the survey, with 82% of Asset Managers / Hedge Funds having assets under management over US\$50 Bn, and with over 40% having assets under management of over US\$250 Bn. 80% of Corporates interviewed were Multi-National.



6. How many Brokers do you use?

The number of banks used ranges from 1 to 80, indicating real diversity among clients interviewed. Many larger clients use more brokers, and in general, most clients channel most business through a 'top tier' of banks - usually comprising 10-20 firms. The much lower incidence of banks used for Currency Options reflects the levels of business throughout the survey.

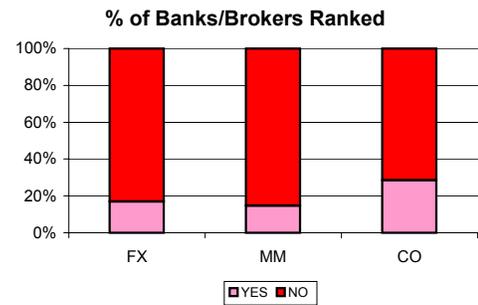


7. Location of Banks/Brokers

Most banks used to transact either FX, MM or Currency Options (CO) were based in UK or Europe. For this region, the number of brokers used ranged from a low of 8 to a high of 21, again indicating the diversity of clients interviewed. For all three products in the region, the average number of brokers used in the region was between 8-10, with the anomaly of a higher average for UK based brokers used for MM instruments - perhaps reflecting greater competition in the UK for short term, time critical instruments.

8. Percentage of Banks/Brokers formally ranked based on Back Office performance

Where clients do perform a ranking process, less than 20% of brokers are formally ranked.



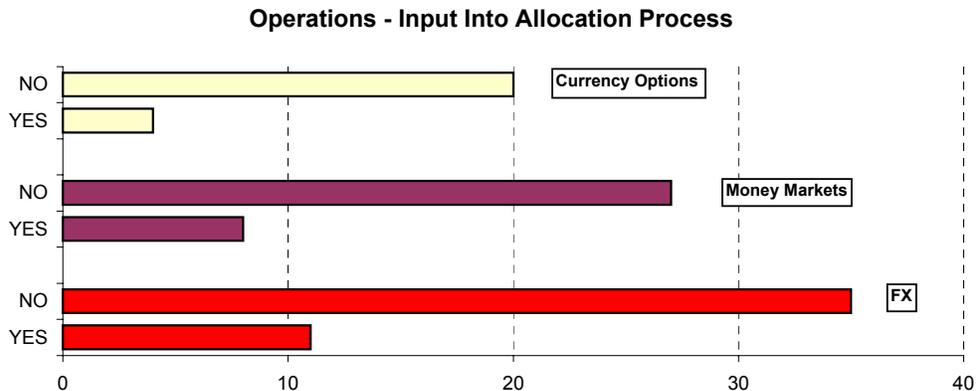
3. Market Analysis

3.2 Broker Selection

1. Do you have a formal business allocation process in which Operations participates?

Clients' Operations/Settlements areas are not often asked to formally participate in the business allocation process, and this theme was consistent across location. Approximately 25% of FX Operations respondents were involved in a review which may lead to business allocation. For MM and CO the proportion was less. Only 2 clients suggested that Operations had a percentage of the 'broker vote', and one of these was not aware of the amount, as the organisation's other contributing criteria changed from year to year.

Some (typically larger) organisations did have a process of review, which would involve periodical meetings with the Front Office, Risk and Credit Committees. Those clients that did have an internal review were often those where Equities and Fixed Income were covered in the same area as FX/MM, so leverage was made of the overview of the entire relationship. These were in the minority however.



2. If there is no formal process, how do you decide on business allocation?

In the vast majority of cases, business allocation was determined by the typical Front Office drivers of Pricing, Execution, Commissions and Research. There were some other factors that determined levels of business, including:

Client Mandates, whereby certain banks/custodians had to be used (or conversely, had restrictions placed upon them, by way of exposure limits) as part of the client's own client relationships. Several interviewees envisaged this type of 'directed' business increasing.

Extension of Credit Facilities, as part of the overall relationship.

3. If there is no formal process, how do you relay feedback on operational performance?

In the absence of a formal allocations process, most Operations groups provide periodic feedback on broker performance to their front office. This typically only occurs when issues that arise need escalating, and such escalation usually resolves the issue. There are some clients that have a more formal internal process (such as meetings with front office, risk management and credit rating departments), but a typical response was:

"Excel spreadsheet details issues with brokers - this is supplied to our front office. We don't fight between back offices - if we have major problems then we always escalate for resolution between Firms"

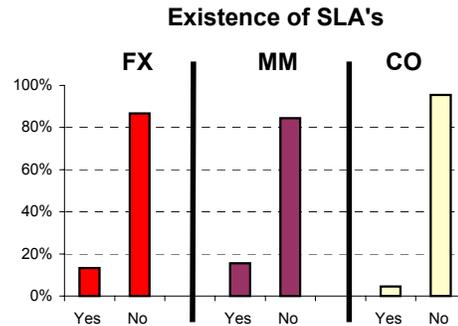
3. Market Analysis

3.3 Operations Best Practice

1. a) Do you have Service Level Agreements (SLA's) in place with your banks/brokers to define operational best practice & performance?

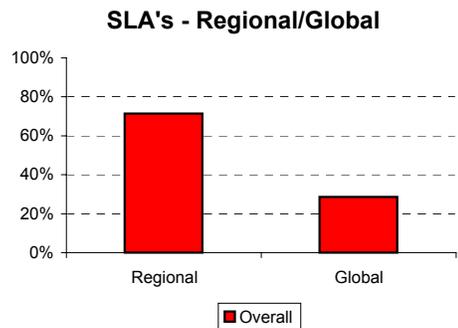
There were virtually no instances where SLA's (or any other service documents) existed as part of the Bank/Client relationship. As such there was once again little differentiation based on client size, type or location.

The common theme among clients was an assumption that excellence in core transaction processing was assumed as part of the front office having entered into the relationship.



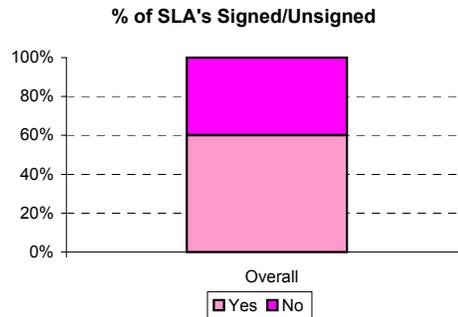
2. a) If yes, are the SLA's Regional or Global?

For the few SLA's that existed most were regional, but this fact was of negligible importance throughout the survey.



b) Are the SLA's signed by the banks/brokers?

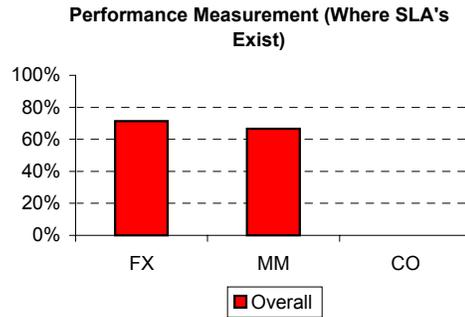
Those SLA's that existed were more often than not signed by the banks, but again, there was little importance attached to this aspect of the relationship.



3. a) If 'Yes', do you measure performance against these SLA's?

Those clients that do have SLA's nearly all had them as part of a wider relationship, i.e., including Equities and/or Fixed Income.

As such, these organisations also typically had a process (automated or otherwise) for tracking aspects of performance.



3. b) If "No", how do you express your expectation to your banks/brokers?

Other than the lack of SLA's (generally), there was no consistent theme in this regard. Again, there is an assumption that client requirements had been set out (presumably by the front office) at an inaugural meeting with the bank/broker. Most relationships however tended to be long-lasting, and as such there was generally not much experience in this area. Supporting comments for this question included:

"FX and MM is massively different from EQ and FID in this regard. Feedback is given via Treasury when we first form the relationship."

"The Money desk monitor and manage the relationship and therefore expectations."

"Our business is quite vanilla (mostly pure deposits, daily rollovers and plain FX's). Expectations are thus simple - if banks don't pay - we claim (and vice versa !). We do however wish that there was a standard code of conduct."

"Via review meetings for FX. For MM, we have a mix of meetings and emails (brokers for MM seem resistant to meetings.)"

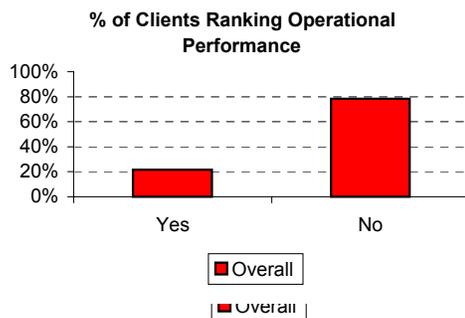
"We don't! There is an assumption that the front office know who deal with."

"Verbally - we are just 4-5 people (front and back office)."

4. a) Do you 'rank' your banks/brokers operational performance?

In the (general) absence of SLA's, there are few clients that perform any kind of ranking of their banks/brokers with regard to operational performance.

Other than in isolated cases, there is little evidence to suggest this is likely to change.

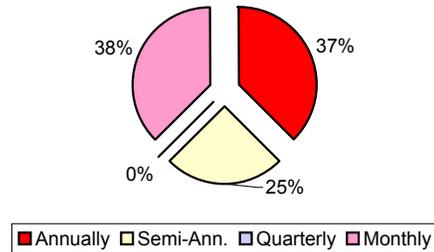


Overall

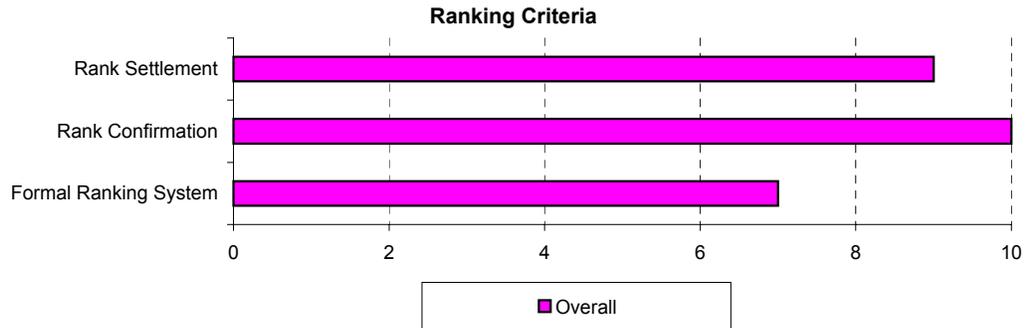
b) If yes, how frequently do you 'rank' your banks/brokers operational performance?

For those few clients that do rank the banks, the frequency varied between monthly and annually.

Frequency of Ranking



c) What activities do you rank operational performance on?

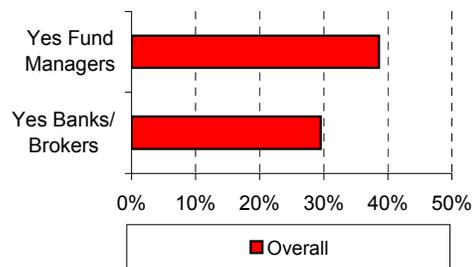


For those that do rank, the main focus is on Confirmation and Settlement accuracy.

d) Do you distribute the information to Banks/Brokers/Fund Managers?"

Of those small number that do rank, less than 40% then follow up by distributing this information to either Fund Managers or the banks themselves.

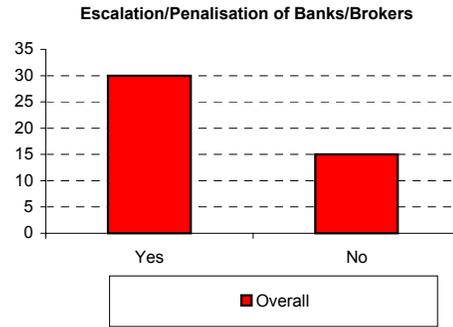
Ranking Data - Distribution



5. a) Do you penalise your banks/brokers for poor operational performance?

Even though issues are comparatively few for FX/MM, most clients are prepared to penalise banks for poor operational performance.

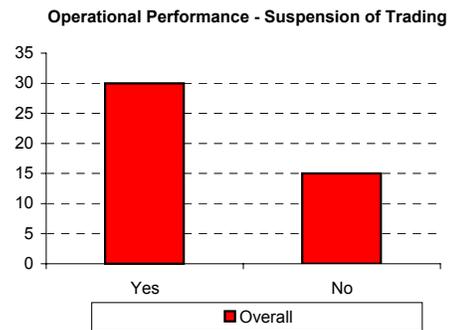
However, this mostly takes the form of escalation, which in itself is seen as penalisation, unlike for Equities, where reduction in trading is the norm.



b) Has a bank/broker ever been struck off for poor operational performance?

Given the general lack of issues (and the usual success of escalation), it was surprising that so many organisations had actually gone so far as to suspend trading. That said, the frequency is significantly less than for securities processing.

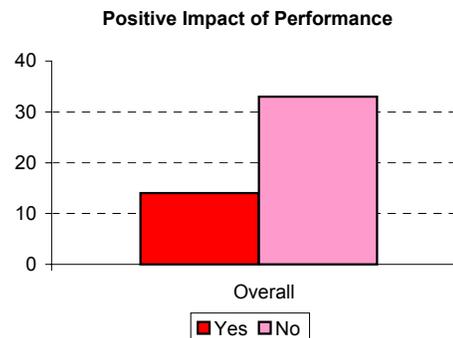
On average clients who had witnessed or influenced a suspension in trading all saw this as a very rare event indeed - perhaps only once every 2-4 years.



6. If operational performance targets are exceeded, does this positively affect business flow?

Most clients believe that only poor Operational Performance can (negatively) impact business flow.

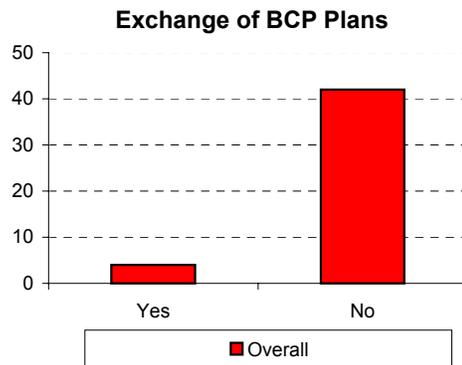
There are some clients that see an opportunity (for example with time critical trades) - but most respondents re-stated that there is an inherent assumption of service standards across the industry.



7. Do you require Banks/Brokers to provide details of their Business Continuity Planning (Disaster Recovery) as part of your relationship?

The vast majority of clients do not require evidence of banks BCP plans as part of the relationship. As with other aspects of the survey, there was an inherent assumption that such plans were in place as a minimum requirement.

Nearly all clients confirmed they had their own BCP plans in order, and many responded to the survey question by suggesting they perhaps should ask banks/brokers for their plans.



3. Market Analysis

3.4 Client Management

For the purposes of this survey, the participating brokers have agreed the following terminology:

Customer Service Management (CSM): The day-to-day handling of the account. Typically: An individual or team who is/are the day to day contacts for operational issues.

Customer Relationship Management (CRM): The Management of the account. Typically: An individual or team responsible for the overall operational relationship (including single point of contact for escalation, bank/broker review meetings, new operations/process implementation etc.)

1. What are your expectations from a bank's/brokers operations group regarding CSM and CRM?

a) Customer Service Management (CSM)

For CSM, Clients have stressed that quick issue resolution, easy access and good follow up in general are the key expectations of the CSM team. However, expectations of the CSM teams were very often expressed in terms of systematic efficiency, reflecting the general feeling that CSM and its core functionality for FX/MM was often perceived as more important than CRM. Client's focus is on the resolution of issues, almost as if the individuals in CSM were the point of escalation in the event of an error at the system/automation level. Quotes included:

"Accurate Trade processing. If there are no problems we expect never to have to call."

"Enquiries need to be resolved in 2 calls - problems straight away."

"The best CSM's are the ones we talk to very infrequently, as it highlights that little is going wrong."

"We have a CSM/CRM role combined, which generally suits us. We appreciate direct (single point of) contact, And efficient settlement performance."

Clients with smaller teams in their FX/MM back office and those with integrated Treasury/Back office functions tended to have less contact with (and less perceived need for) CSM/CRM than larger organisations.

b) Customer Relationship Management (CRM)

For CRM, clients stressed that escalation (via a single point of contact) was the key requirement of CRM (where CRM existed on a stand alone basis). This was often expressed in terms suggesting that the CRM should be making sure that CSM is/are performing well. Several clients also want CRM to be more effective in arranging (more) regular review meetings and also to be more pro-active in describing the benefits of market developments, such as CLS. Quotes included:

"Ensure that the CSMs are doing a good job".

"Some brokers only have CSM, but for CRM we would expect the same plus greater escalation ability".

"We have a specialist CRM at just 1 broker. Good visibility - CRM's should be able to resolve issues."

"Don't need CRM if CSM is good, but CRM should be available for major escalation."

"Ownership. Be proactive - particularly in setting up meetings. Provide information that relates to us. Take an interest in our business".

"To help us in solving our problems when CSM can't".

"We don't have any (CRM) ! MM in general is not highly developed in this regard".

"Single point of contact for Legal and Front Office issues. We like them not to bother us asking for information (i.e., new brokers ask for too much for credit analyses purposes)."

"Arrange and conduct regular quarterly meetings - the emphasis should be on them to arrange, not us"

2. How does the CSM/CRM add significant value to a banks/brokers operations group?

a) Customer Service Management (CSM)

Clients often referred to the maintenance of Static Data as a differentiating factor. Clients have also placed much emphasis on the day-to-day aspect of CSM as a key factor in their relationship. This perception was widely extended as to how CSM can add value, often being expressed in terms typically used when describing a 'traditional' CRM function. For example:

"The more effective the CSM, the better the broker."

"For a back office, a good CSM portrays the company as a whole. As this is our most frequent and regular contact, if a CSM is not providing a good service, then this is how the bank/broker is seen in general."

"Good SSI updates - was a problem when we first increased volumes - but better now."

"Sorting out any messes their traders and clients may have created."

"Our first contact = image of the bank."

"By establishing formal CSM relationships, co-operation and tolerance for the occasional problem is increased."

"Escalation without admission of inadequacy."

"They should all be the same (for these products), so 'value-added' doesn't really apply."

b) Customer Relationship Management (CRM)

With less differentiation between CSM and CRM than in previous surveys, clients see CRM for FX and MM as adding value by ensuring that the two organisations (client and bank) are communicating at the right level.

This may take the form of providing updated contact details, ensuring *appropriate* frequency of review meetings, arranging for presentations of new market products/processes or "asking what they can do for us". Clients also often used variations on the term 'empowerment' when referring to CRM's adding value.

3. What do you believe will be your future requirements of CSM/CRM?

a) Customer Service Management (CSM)

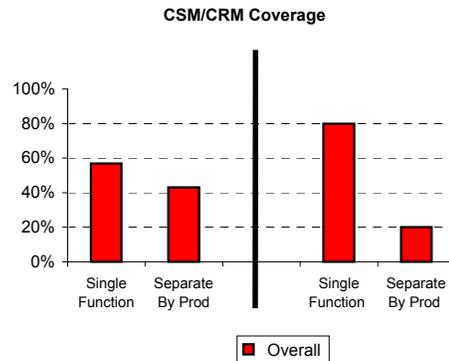
More of the same is once again a common theme, underlining the need for banks to focus on not only CSM teams, but the automation of infrastructure to support CSM. One comment summed up the CSM/CRM coverage of FX/MM - *"We hope to move away from CRM to CSM, as the need for escalation decreases!"*

b) Customer Relationship Management (CRM)

With regard to CRM, many clients do not anticipate any changes to current practice, with the notable exception of wanting to receive more information on the process (and benefits?) of CLS.

4. Would you like a single CSM/CRM function covering the overall relationship, or separate functions by Product (e.g. FX, Money Market, Currency Options)?

With the delineation of CSM and CRM roles being less distinct for FX and MM, there was understandably a mixed response to this question. Equities and Fixed Income coverage showed a significant preference (over 90%) for a single point of contact for CRM and only 40% for CSM. For FX and MM, the emphasis for ownership has shifted more toward CSM. Clients were more focused on CSM having good back up (for holiday coverage etc)



Client's reasons for their preference clearly demonstrated this:

"It doesn't matter what their structure is - it may be nice to have a single point of contact, but we're not going to get hung up about it - we like to involve all relevant staff at review meetings (theirs and ours)."

"Single point of contact is desired, but not merely as a phone box - they must be effective."

"More product knowledge makes it easier to deal with people."

"We like to speak to specialists (like us!). Good to have back up though, when needed."

"No preference - as long as the person 'knows the client' ."

"We see CSM and CRM as combined - the CRM per se is with our front office."

"We expect good all round knowledge, and don't mind what structure provides that."

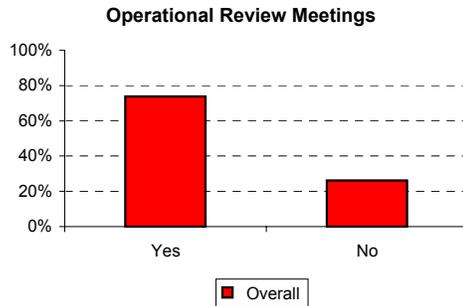
5. Would you like any 'Single Functions' to additionally cover Equity and Fixed Income securities?

Of those clients that expressed an interest, there was an approximate 50/50 split. In general, larger organisations where the products were combined at the client level preferred joint coverage, and Corporates typically had no involvement with securities

6. Do you currently have Operational Review Meetings with your banks/brokers?

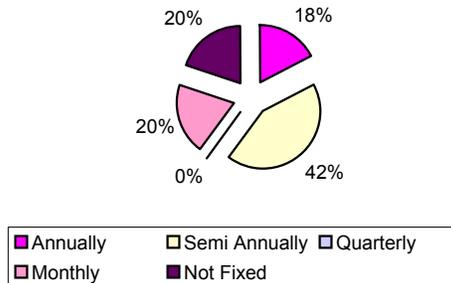
The majority of clients do hold review meetings with banks/brokers for FX/MM, but many of these are 'on the back of Equities and/or Fixed Income meetings - where the percentage was between 98-100%.

The general consensus among FX/MM clients was that review meetings are not essential if there are no issues to discuss.



a) If 'Yes', how often would you expect to have Operational Review Meetings with your banks/broker's operations groups?

Frequency of Review Meetings

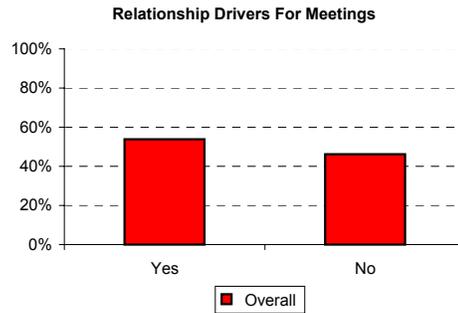


While many clients meet semi-annually, the frequency was perceived to not be as important as the content. During the Equities and Fixed Income survey, over 90% of clients met semi-annually, as opposed to 43% for FX/MM - where clients expressed a desire to meet only to resolve issues, or be informed of upcoming market changes.

Some larger clients, who had consolidated product coverage, expressed an interest in moving toward a consolidated, semi-annual review.

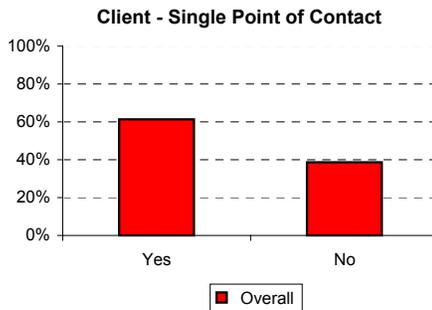
b) Does this depend on any internal ranking of bank/broker relationship?

Clients commented that 'internal ranking' may be incongruous, as there were few clients that formally ranked banks/ brokers. The approximate 50/50 split of responses reflects this.



c) Do you have a single point of contact for the banks/brokers to contact (i.e; a single liaison point in your organisation?)

Clients often answered 'yes', either with a caveat that banks/brokers also have direct access to product specialists, or in the case of smaller organisations, to front office.



3. Market Analysis

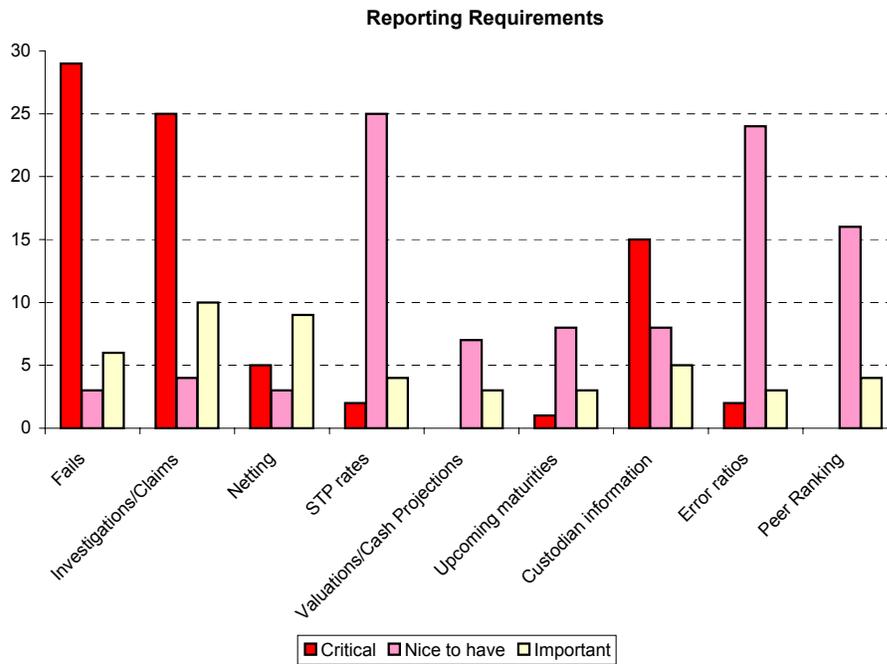
3.5 Future Plans

1. What are your reporting requirements from your banks brokers?

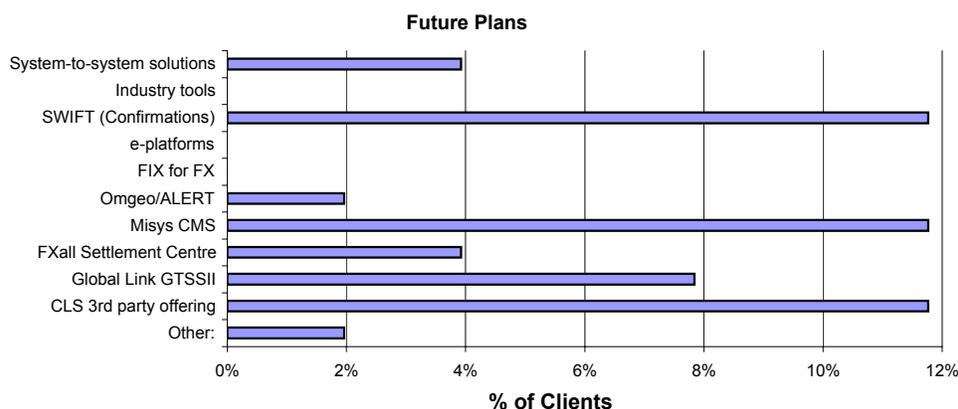
Reporting in general is not seen as a key requirement by the majority of clients, nor is the receipt of reports seen as a distinguishing performance factor. Nearly half of clients (mainly larger organisations) see Fail (Non-Receipt) and Investigations/Interest Claims reporting as critical however, but only a handful of other clients see a need for reporting at all in this regard.

The most common response (where received) was that reporting on the criteria set out was 'nice to have'. There was very little take up of the suggestion of Valuations/Cash projections, as most clients interviewed either performed this function In-house, or considered their volumes to be too low to warrant this.

Nearly every client that did see a need for reporting preferred to receive reports via email. There was one client however who saw Website access as a means to avoid distribution errors.



2. What future plans do you have that need to be anticipated by your banks/brokers?



Unlike for Equities and Fixed Income, there were relatively few future (technical) plans reported by clients. The main recurring themes were Upgrades to SWIFT for Confirmations, or to MISYS CMS or looking at CLS - although less than 12% of respondents named these as plans for the next 6-12 months. The main feedback in terms of market developments surrounded a need to know more about CLS in general, particularly the benefits.

3. What factors will impact your decisions, and have your priorities changed?

As expected, most clients are aware of costs, operating efficiencies and IT availability being typical drivers for future strategy. There was however a wider range of additional future plans reported by clients, with a primary focus on STP and being able to manage greater volumes (for an increasing range of clients, and with perceived tighter settlement deadlines). Several Global organisations are focusing more on standardising global practice and systems. Responses included:

"Anything that mitigates risk and improves operations efficiency."

"We adopt an 'air traffic control' process of ensuring an overview of all IT projects."

"We are outsourcing back and mid office Q3 2004."

"Technical resource and Global alignment."

"We have just implemented SWIFT implementation for equity and fixed income - FX is next. We have a new CMS system and a new reconciliation system in the offing."

Most clients were aware of changes to CLS, but were either adopting a 'wait and see' approach, or, in many cases, wanting to have more information from banks/brokers regarding the benefits for them. One client commented - "We see FX settlement risk as the biggest area of risk - we would love to be able to match via CLS."

4. What other plans do you have which will impact the support services you require from your banks/brokers?

Some clients repeated that increases in volume or account structure may need support from banks/brokers. Otherwise, the only occasionally recurring theme in this regard was some degree of operational outsourcing (3 instances), move of function to another part of the clients' organisation (3 instances) and some re-locations (2 instances). In all these cases, clients believed that these events should be transparent to the banks/brokers.

5. Are you involved in any industry working groups, and if so what is the purpose?

Few clients are actively involved in industry working groups, although among those that are, CLS is again a recurring theme, as is enhanced STP (through ISITC and SWIFT market practice group involvement).

6. Are there any industry working groups that you would like your banks/brokers to participate in, and if so, why?

Clients preferred their banks/brokers to take the initiative by being involved (or leading) industry groups (rather than doing so themselves). Further clarity on CLS is identified again, as is a desire for industry standards surrounding Interest Claim process:

"CLS working group - our bank is one of the founder members."

"We would like to see a group set up (via SWIFT?) for NDFs - there seems a reluctance within the industry to create standards."

"CLS - some are dragging their heels."

"Industry standards on interest claims please - would be useful."

"Would like our brokers to be involved in standardising Interest Claim Process."

"3rd party CLS (important for brokers) but also offers us DVP/RVP for FX trades, which could lead to matching and elimination of risk. Then we could also review the Credit Documentation requirement process also."

7. What is the single most important point you would like to raise to the banks/brokers, in terms of service provision.

The most common response was **Confirmation Timeliness and/or Accuracy**. This was closely followed by:

Good Settlement Performance. Generally greater emphasis on settlement than CSM/CRM - when compared to previous Equity and Fixed Income surveys.

Static Data Maintenance and Timely Updates. There was a common theme among clients that while they had liability for this process, they had limited accountability. That is to say, clients knew they were responsible for sending SDI updates out, but felt they then lost control of the updates, as a result of (often) inefficient processes at the banks.

Consistent Coverage (across offices and departments). This included focus on speedier resolution of problems, and enhanced communication between offices in different locations.

Additionally, the following points were also raised by a number of Clients:

- **High quality CSM/CRM.**
- **Single Point of contact.**
- **Accuracy in all areas.**
- Better **Communication** between front office and back office.

8. If this point is consistently met, would this result in additional business for the bank/broker concerned ?

On the whole, clients still believe that Front Office criteria remain the key business drivers. Also, clients generally feel that Operational feedback to Front Office would only have an impact if it was negative (i.e., from poor performance). Some however, did see an opportunity for operational excellence to result in additional business:

"Possibly - we are able to express preferences for certain deals."

"Most definitely ! The front office ask for Operations input on urgent trades (i.e., time critical). This is happening less frequently however."

"By default - those who don't will lose out."

"It would, as we have a very close relationship with our Front Office."

4. Broker Ranking - Summary of Top 3 Banks

The table below shows the Top 3 placed banks in each of the survey categories.

Average No. of Rankings Received	Foreign Exchange Core Transaction Management	First	Second	Third
28	Confirmation Timing	Goldman Sachs	Morgan Stanley	CSFB
28	Confirmation Accuracy	Goldman Sachs	Morgan Stanley	RBOS
27	Settlement Performance	Deutsche Bank	Morgan Stanley	RBOS
27	Post Settlement Performance	Deutsche Bank	RBOS	Morgan Stanley
26	Static Data Management	Morgan Stanley	JP Morgan	ABN AMRO

Average No. of Rankings Received	Foreign Exchange Customer Management	First	Second	Third
25	CSM	Goldman Sachs	Morgan Stanley	JP Morgan
24	CRM	ABN AMRO	Goldman Sachs	JP Morgan
22	Product Knowledge	Goldman Sachs	JP Morgan	HSBC
18	Regular MIS	HSBC	Deutsche Bank	Goldman Sachs

Average No. of Rankings Received	Money Markets Core Transaction Management	First	Second	Third
15	Confirmation Timing	Goldman Sachs	Deutsche Bank	Morgan Stanley
15	Confirmation Accuracy	Goldman Sachs	RBOS	HSBC
14	Settlement Performance	Goldman Sachs	RBOS	Morgan Stanley
12	Post Settlement Performance	Goldman Sachs	Morgan Stanley	RBOS
14	Static Data Management	Goldman Sachs	Morgan Stanley	RBOS

Average No. of Rankings Received	Money Markets Customer Management	First	Second	Third
13	CSM	HSBC	RBOS	Goldman Sachs
13	CRM	ABN AMRO	HSBC	RBOS
10	Product Knowledge	Goldman Sachs	RBOS	JP Morgan
6	Regular MIS	HSBC	JP Morgan	RBOS

- In addition to the sponsoring banks, clients were asked to rank Deutsche Bank
- One sponsoring bank, Commerzbank, received rankings from less than 10 clients and thus have been removed from this part of the survey.

5. List of Participating Clients

- Morley Fund Management, UK
- Schroder Investment Management Limited
- JP Morgan Fleming Asset Management
- Goldman Sachs Asset Management
- Hendersons Investment Management
- Morgan Stanley Investment Management
- CDC IXIS Asset Management
- Threadneedle Asset Management
- Nextra Investment Management, Milan
- Scottish Widows Investment Partnership
- M & G (Prudential)
- Deutsche Asset Management Investment
- Invesco
- AXA Investment Managers, France
- BNP Paribas
- Legal and General Investment Management Limited
- Credit Suisse Asset Management
- Citi Asset Management
- Fortis Investment Management, Brussels
- Tesco PLC
- Pioneer Investment Management
- State Street Global Advisors Ltd.
- Dexia Asset Management, Brussels
- Bank of Ireland Security Services
- Capital International
- ABN Amro Asset Management
- Barclays Global Investors
- UBS Global Asset Management
- General Electric
- Western Asset Management
- Sloan Robinson
- Sony PLC
- Rogge Global Partners
- Citigroup Asset Management
- British Petroleum
- WestLB Asset Management (UK) Limited
- Nokia Finance Ltd
- Motorola PLC
- Moore Capital
- Glaxo Smith Kline
- ABP Investments
- Pfizer PLC
- EON Investment Ltd
- Tetra Laval
- Shell Finance Ltd
- THS Partners Ltd
- Infineon
- Tudor Investment Corporation
- Emerging Sovereign Group
- PIMCO Investors
- Tiger Aspect Investment

6. 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 or call Jeremy Smith on +44 (0)20 7562 9562.