

Brokers with Strong E-Trading Platforms See Opportunities in Japanese Equities Market

2015 Greenwich Leaders: Japanese Equities

Q4 2015

After several years in which Japan's biggest domestic equity brokers added to their already impressive levels of market share, the country's brokerage industry settled into a state of at least temporary equilibrium in 2015.

In 2011–2012, the leading Japanese brokers made a series of well-timed investments in equity research and trading platforms. Those investments were just taking effect when a number of foreign brokers, discouraged by years of weak volumes in the Japanese equity market, decided to scale back their commitments to varying degrees. At almost exactly the same time, Prime Minister Shinzo Abe was implementing the “Abenomics” policies that ignited a boom in Japanese stock valuations and trading activity.

Japanese brokerage houses' foresight and fortuitous timing were rewarded by sizable increases in equity research impact and trading share in 2013 and 2014, with gains coming first from domestic clients and later from foreign investors, including institutions in offshore Asia and those in the United States and Europe.

Those increases have tapered off over the past 12 months. In 2015 the large domestic brokers collectively maintained their gains in market share in Japanese equity trading, with modest year-on-year growth, and held steady or even gave up a bit of ground in Japanese equity research.

As in past years, Nomura Securities dominated both cash equity trading and research/advisory services with institu-

2015 Greenwich Share Leaders — Equities

Japan/Asia-Based Institutions



Japanese Equity Trading Share

Broker	Trading Share	Statistical Rank
Nomura Securities	12.1%	1
Daiwa Securities	9.0%	2T
SMBC Nikko Securities	8.3%	2T
Mizuho Securities	8.1%	2T
Morgan Stanley	7.7%	5T
Mitsubishi UFJ Morgan Stanley Securities	7.4%	5T

Japanese Equity Research/Advisory Vote Share

Broker	Vote Share	Statistical Rank
Nomura Securities	14.0%	1
Mizuho Securities	10.8%	2T
SMBC Nikko Securities	10.2%	2T
Daiwa Securities	10.1%	2T
Mitsubishi UFJ Morgan Stanley Securities	8.6%	5

Japanese Equity Algorithmic Trading Share

Broker	Trading Share	Statistical Rank
Nomura Securities	11.9%	1T
Daiwa Securities	8.4%	2T
UBS	8.4%	2T
Credit Suisse	8.2%	2T
Morgan Stanley	7.8%	2T
Bank of America Merrill Lynch	7.4%	2T

Options & Volatility Product Penetration — Japan

Broker	Important Relationships	Statistical Rank
Goldman Sachs	57%	1T
Nomura Securities	52%	1T
Morgan Stanley	48%	1T
Bank of America Merrill Lynch	36%	4T
J.P. Morgan	36%	4T

Futures Market Penetration — Japan

Broker	Important Relationships	Statistical Rank
Nomura Securities	56%	1
Mitsubishi UFJ Morgan Stanley Securities	41%	2
Daiwa Securities	35%	3T
Mizuho Securities	34%	3T
Morgan Stanley	33%	3T

Note: Weighted by commission spend of accounts. Vote share and trading share represent a broker's relative importance to the buy-side institutions within the Greenwich Associates universe. Scores are based upon the amount of business conducted with each respondent and the size of each responding institution based on commission spend with the sell-side community. Based on interviews with respondents at buy-side institutions for Japanese equity research/advisory (portfolio managers) and 130 for equity trading (traders), 82 for futures, and 42 for options & volatility products, and 84 for equity algorithmic trading share.

Source: Greenwich Associates 2015 Japanese Equity Investors & Equity Derivatives Studies

tions based in Japan and Asia. In Japanese equity trading, Nomura's 12.1% market share with institutions based in Japan and Asia, which account for the lion's share of Japanese equity trading volume globally, places the firm far ahead of nearest competitors Daiwa Securities, SMBC Nikko Securities and Mizuho Securities, which are statistically tied with market shares of 8.1%–9.0%, and Morgan Stanley and Mitsubishi UFJ Morgan Stanley Securities, which are tied with market shares of 7.4%–7.7%. These firms are the 2015 Greenwich Share Leaders in Japanese Equity Trading. Nomura Securities also claims the title of 2015 Greenwich Quality Leader in Japanese Equity Sales Trading & Execution Service.

The 2015 Greenwich Share Leaders in Japanese Equity Research/Advisory Services are Nomura Securities, with an impressive advisory vote share of 14.0%, followed by Mizuho Securities, SMBC Nikko Securities and Daiwa Securities, which are statistically tied at 10.1%–10.8%, and Mitsubishi UFJ Morgan Stanley Securities at 8.6%. Nomura Securities is the 2015 Greenwich Quality Leader in both Japanese Equity Research Product & Analyst Service Quality and Japanese Equity Sales & Corporate Access Quality.

“With scale becoming increasingly important in cash equities, the \$1.5 billion in annual trading commissions earned by brokers makes the Japanese equity business a meaningful battleground for firms both domestic and global,” says Greenwich Associates consultant John Feng.

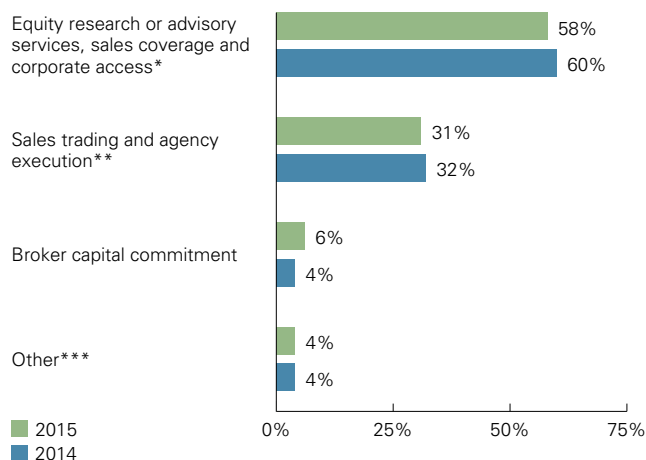
Dealers Find Advantage in Electronic Trading Prowess

The estimated \$1.5 billion Japanese equity brokerage commission pool is split about 60/40 between commissions generated from the provision of research/advisory services and

commissions for trade execution. In keeping with this ratio, there is generally a strong correlation between the brokers' competitive position in institutional equity research/advisory and their ranking in equity trading. However, certain firms consistently punch above their weight class by garnering a market share in equity trading significantly bigger than would be expected based on their performance in research/advisory. Often, this valuable “trading premium” is attributable to prowess in electronic trading.

Japanese Equity Commissions for Research/Advisory vs. Execution

Japan/Asia-based Institutions — Japanese Traders



Note: Based on 128 trader respondents in 2014 and 124 in 2015.

*Including the research portion of any CCA/CSA arrangements. **Includes price improvement, market impact, etc. and the execution portion of commission sharing arrangements. ***Including “commission recapture.”

Source: Greenwich Associates 2015 Japanese Equity Investors Study

2015 Greenwich Quality Leaders — Equities and Equity Derivatives

Japan/Asia-Based Institutions



Japanese Equity Sales Trading & Execution Service Quality

Broker

Nomura Securities

Japanese Equity Research Product & Analyst Service Quality

Broker

Nomura Securities

Japanese Equity Sales & Corporate Access Quality

Broker

Nomura Securities

Japanese Equity Electronic Trading Quality

Broker

Bank of America Merrill Lynch

Nomura Securities

Options & Volatility Product Coverage Quality — Japan

Broker

Goldman Sachs

Morgan Stanley

Nomura Securities

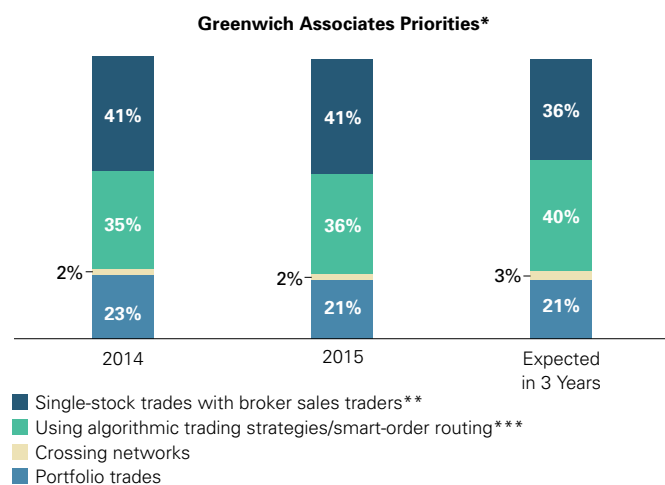
Note: Based on 157 respondents for Research and Analyst Service Quality and Sales Quality, 130 for Trading Quality, 42 for Options & Volatility Product Coverage Quality, and 85 for Equity Electronic Trading Quality. Leading brokers are listed alphabetically.

Sources: 2015 Greenwich Associates Japanese Equity Investors and Equity Derivatives Studies

Japanese stocks represent one of the world's most electronic equity marketplaces. Approximately 60% of Japanese equity trading volume is executed through "low-touch" electronic transactions, with only the remaining 40% completed through traditional "high-touch" trades facilitated by brokerage sales traders. Included in the "low-touch" category is roughly 40% of total trading volume executed through single-stock electronic transactions and approximately 20% of total volume done through portfolio trades.

High-Touch vs. Electronic Mix of Japanese Equity Trading Volume

Total Institutions — Japanese Traders



Note: May not sum to 100% due to rounding. *Greenwich Associates Priorities are defined as institutions in Tiers 1-2 of 5. Tiers are determined by institutional commission volume, with Tier 1 containing the largest and Tier 5 the smallest commission payers. **Communicated either by phone, messaging, email, or FIX protocol. ***Including dark pool sourcing algos. Based on 42 respondents in 2014, 40 in 2015 and 37 for projected.

Source: Greenwich Associates 2015 Japanese Equity Investors Study

The large share of trading volume executed through low-touch channels provides opportunities for brokers with top-quality electronic trading platforms. For 2015, the Greenwich Quality Leaders in Japanese Electronic Trading are Bank of America Merrill Lynch and Nomura Securities. In the important category of algorithmic trading, Nomura Securities leads the field with an estimated market share of 11.9%, followed by a closely matched group of brokers including Daiwa Securities, UBS, Credit Suisse, Morgan Stanley and Bank of America Merrill Lynch, which are statistically tied with market shares of 7.4%–8.4%. These firms are the 2015 Greenwich Share Leaders in of Japanese Equity Algorithmic Trading.

From the list of 2015 Greenwich Share Leaders in algorithmic trading, Morgan Stanley provides a good example of the "trading premium" at work. While the firm does not rank inside the top five in Japanese Equity Research/Advisory Services this year, Morgan Stanley ties for fifth place in equity trading, with a market share of 7.7%. "Electronic trading is just part of the story for Morgan Stanley, which

posted the market's biggest year-to-year increase in trading share this year," says Greenwich Associates consultant Tomio Sumiyoshi. "The firm has built a strong foundation, with strength in both high-touch and low-touch trading and a Japanese equity research platform that actually is judged by clients as being among the best of the global or non-domestic brokers."

Equity Derivatives

Nomura Securities' strength in cash equity trading carries over into the market for Japanese equity derivatives. In Options and Volatility Products, Nomura ties Goldman Sachs and Morgan Stanley for breadth of market penetration, with approximately 50% to 60% of institutions active in these products naming each firm as an important broker. The list of Greenwich Share Leaders here is rounded out by Bank of America Merrill Lynch and J.P. Morgan, which are tied with penetration scores of 36%. The Greenwich Quality Leaders in Japanese Options & Volatility Product Coverage Quality are Goldman Sachs, Morgan Stanley and Nomura Securities.

With a penetration score of 56%, Nomura is the clear leader in Japanese Equity Futures, followed by Mitsubishi UFJ Morgan Stanley Securities at 41%, and the trio of Daiwa Securities, Mizuho Securities and Morgan Stanley, which are tied at 33%–35%.

Consultants John Feng, Tomio Sumiyoshi and Taeko Sumiyoshi advise on the Japanese institutional equity market.

Methodology

Between July and September 2015, Greenwich Associates conducted interviews with 157 equity portfolio managers, 130 equity traders and 111 equity derivatives users across domestic Japanese institutions, foreign subsidiaries in Japan and offshore institutions in Asia/Pacific about market trends and broker relationships in the Japanese market.

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