

In Spite of Reduced Trading Volumes, Equity Derivatives Remain Essential Tools

2014 Greenwich Leaders: Equity Derivatives

Q3 2014

Equity derivatives remain essential tools for institutional investors, but the lack of volatility in global markets has reduced trading volumes. In this challenging environment for broker-dealer trading revenues, Goldman Sachs, Bank of America Merrill Lynch and Morgan Stanley have maintained their positions as the leading brokers of flow equity derivatives to institutional investors in North America. In Europe, where the field is more open, Deutsche Bank, Morgan Stanley and J.P. Morgan have established strong platforms across delta one and options volatility products.

Winning trading relationships with institutions in options, swaps, futures, ETFs, and other derivatives is critical to broker-dealer success. Investors use far fewer brokers in these products than in cash equities or fixed income. Institutions typically use only six or seven counterparties for equity derivatives trades. Broker dealer lists in cash markets are generally two to four times longer than that or more.

“The brokers that win these coveted relationships are firms that consistently combine the best prices with market insights and trading ideas,” says Greenwich Associates Consultant Jay Bennett. “Essentially, this is a Bulge

Bracket business where only a limited number of focused and very sophisticated firms can compete.”

Options & Volatility Products

Users of options products in both North America and Europe cite competitiveness of index-options pricing as the primary factor considered when selecting a broker. The No. 2 and 3 most important factors in North America are understanding investment strategies or hedging needs and providing market color. In Europe, they are competitiveness of single-stock options pricing and consistency of sales/trading service during volatile markets. Hedge funds also place a high value on brokers’ pricing of single-stock options and willingness to commit capital for trades, making the latter demand an important factor in North America.

North America

Approximately two-thirds of North American institutions active in equity options and volatility products cite important trading relationships with Goldman Sachs, Bank of America Merrill Lynch and Morgan Stanley. Citi and Deutsche Bank have achieved market penetration scores of roughly 55%. These firms are 2014 Greenwich Share Leaders in Equity Options & Volatility Products in

2014 Greenwich Share Leaders — Equity Options & Volatility Product Market Penetration



North America

Broker	Important Relationships	Statistical Rank
Goldman Sachs	66%	1T
Bank of America Merrill Lynch	65%	1T
Morgan Stanley	64%	1T
Citi	57%	4
Deutsche Bank	53%	5
Credit Suisse	49%	6T
J.P. Morgan	49%	6T
Barclays	49%	6T

Europe

Broker	Important Relationships	Statistical Rank
Deutsche Bank	68%	1T
J.P. Morgan	67%	1T
Morgan Stanley	67%	1T
Societe Generale/SG CIB	55%	4T
Goldman Sachs	53%	4T
Bank of America Merrill Lynch	51%	6
BNP Paribas	48%	7

Note: Includes top 10 relationship citations for 2014, distinctive service evaluations and any mention for transactions in specific options & volatility products: listed and listed look-alike options across single-stock, index, options on volatility indices (VIX/V2X), options/swaps/futures on dividends, options on sector ETFs, “lite exotics”/structured flow options, and variance/volatility swaps on indices or single-stocks. Based on interviews with 136 institutions in North America and 152 in Europe.

Source: Greenwich Associates 2014 Equity Derivatives Study

Most Important Selection Criteria for Options Trading



Note: Based on 44 respondents in North America and 77 in Europe. Asked of a random sample.

Source: Greenwich Associates 2014 Equity Derivatives Study

North America. In terms of client satisfaction with sales, ideas, pricing and research, Bank of America Merrill Lynch, Goldman Sachs and Morgan Stanley are the 2014 Greenwich Quality Leaders.

Europe

Almost 70% of European institutions active in these products cite important trading relationships with Deutsche

Bank, J.P. Morgan and Morgan Stanley. Between 53% and 55% of institutions name Societe Generale and Goldman Sachs as important relationships. These firms are 2014 Greenwich Share Leaders in Equity Options & Volatility Products in Europe. The 2014 Greenwich Quality Leaders based on client satisfaction are Deutsche Bank and Morgan Stanley.

Swaps

As in options and volatility products, investors in North America and Europe cite competitiveness of index swaps pricing as the most important factor considered when selecting a broker. Interestingly, competitiveness of single-stock swaps pricing, creditworthiness of the counterparty and quality of swaps trading ideas influence broker selection more heavily in Europe than in North America.

“Institutions want their brokers to help them use swaps to better manage risk, gain exposures and protect revenue streams and assets,” says Greenwich Associates consultant John Colon. In North America, long-only investors pay extra attention to the creditworthiness of their swaps counterparties, while prime brokerage relationships and credit provision influence broker selection for hedge funds.

North America

Upwards of two-thirds of North American institutions active in equity swaps name Bank of America Merrill Lynch and Goldman Sachs as an important trading relationship. Morgan Stanley, Credit Suisse and J.P. Morgan are used by more than 50% of institutions. These firms are among the 2014 Greenwich Share Leaders in Equity Swaps. When assessing client satisfaction with sales, ideas and pricing, Bank of America Merrill Lynch, BNP Paribas and Goldman Sachs, are the 2014 Greenwich Quality Leaders.

2014 Greenwich Share Leaders — Equity Swaps Market Penetration



North America

Broker	Important Relationships	Statistical Rank
Bank of America Merrill Lynch	69%	1T
Goldman Sachs	66%	1T
Morgan Stanley	53%	3T
Credit Suisse	51%	3T
J.P. Morgan	51%	3T
Deutsche Bank	49%	3T

Europe

Broker	Important Relationships	Statistical Rank
Deutsche Bank	57%	1T
Morgan Stanley	57%	1T
J.P. Morgan	54%	1T
Goldman Sachs	48%	4T
Bank of America Merrill Lynch	44%	4T
Societe Generale/SG CIB	44%	4T

Note: Includes top 5 relationship citations, distinctive service evaluations, and any mentions for transactions in specific equity swaps products: index, single-stock or custom baskets. Based on interviews with 77 institutions in North America and 54 in Europe.

Source: Greenwich Associates 2014 Equity Derivatives Study

Europe

Deutsche Bank, Morgan Stanley and J.P. Morgan each claim important trading relationships with 54–57% of institutions active in equity swaps. Between 44% and 48% of institutions cite important trading relationships with

Most Important Selection Criteria for Equity Swaps Trading



Note: Based on 30 respondents in North America and 23 in Europe. Asked of a random sample. *Not asked in region.
Source: Greenwich Associates 2014 Equity Derivatives Study

Goldman Sachs, Bank of America Merrill Lynch and Societe Generale. These firms are the 2014 Greenwich Share Leaders in Equity Swaps. The 2014 Greenwich Quality Leaders based on client satisfaction are BNP Paribas, Deutsche Bank, Morgan Stanley, and Societe Generale.

Futures

Even though investors use on average only three or four counterparties for futures trading, trading relationships are spread out broadly among a relatively large number of competitors in both Europe and North America. Investors select brokers for futures trades largely on the basis of pricing/execution, clearing relationships and electronic trading capabilities

North America

Nearly 50% of institutions active in equity futures cite Goldman Sachs as an important trading relationship, followed by Bank of America Merrill Lynch and Morgan Stanley at approximately 40%, J.P. Morgan at 32% and Barclays at 27%. These firms are the 2014 Greenwich Share Leaders in Futures.

Europe

Between 46% and 48% of institutional investors cite important trading relationships with Morgan Stanley and J.P. Morgan. Following closely is Goldman Sachs (44%) and Deutsche Bank (43%). Between 33% and 35% cite important relationships with Bank of America Merrill Lynch, Barclays, Societe Generale, and UBS. These firms are the 2014 Greenwich Share Leaders in Futures.

2014 Greenwich Share Leaders — Futures Market Penetration



North America

Broker	Important Relationships	Statistical Rank
Goldman Sachs	48%	1
Bank of America Merrill Lynch	39%	2T
Morgan Stanley	39%	2T
J.P. Morgan	32%	4T
Barclays	27%	4T

Europe

Broker	Important Relationships	Statistical Rank
Morgan Stanley	48%	1T
J.P. Morgan	46%	1T
Goldman Sachs	44%	3T
Deutsche Bank	43%	3T
Bank of America Merrill Lynch	35%	5T
Barclays	33%	5T
Societe Generale/SG CIB	33%	5T
UBS	33%	5T

Note: Includes top 5 relationship citations, distinctive service evaluations, and any mentions for transactions in specific futures products: index, futures on volatility indices (VIX/V2X), single-stock futures, sector futures. Based on interviews with 85 institutions in North America and 112 in Europe.
Source: Greenwich Associates 2014 Equity Derivatives Study

ETFs

Once again, when picking an ETF broker, institutions in North America and Europe look for firms who give the best pricing. Investors in North America continue to cite understanding their investment strategies and providing market color as the next most important factors. Of note, willingness to commit capital to facilitate trades has more influence in ETFs than the other equity derivative products.

In Europe, consistency of service during extreme market volatility and quality of ETF trading ideas influence broker dealer selection.

In North America, funds are particularly big users of e-trading for ETFs, executing 40–50% of volume on electronic platforms. In order to remain competitive, broker-dealers must maintain an effective electronic trading platform for ETFs.

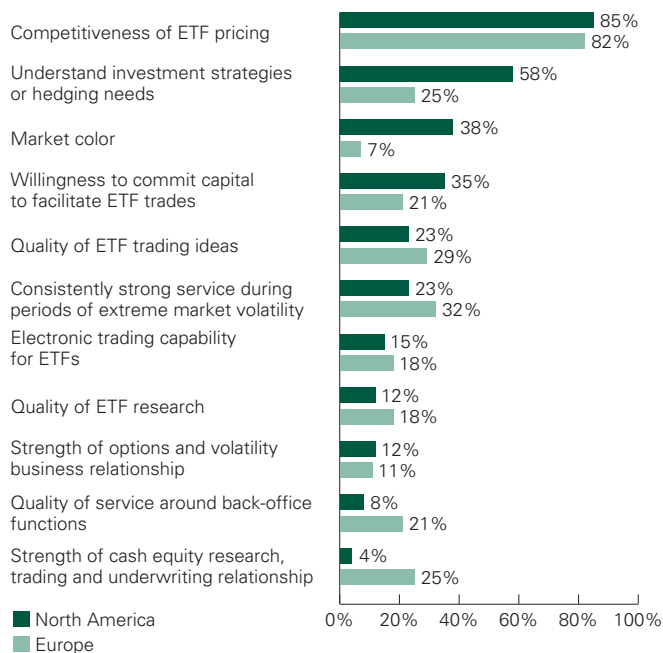
North America

Morgan Stanley is the clear leader in ETF trading with a market penetration score of 60%. The next closest competitors in the top ranks are Bank of America Merrill Lynch (47%), Goldman Sachs (42%) and Citi (37%). The 2014 Greenwich Share Leaders in ETFs also include Deutsche Bank, Credit Suisse and UBS.

Europe

Deutsche Bank is Europe's top broker of ETFs, claiming 53% of important trading relationships with institutions active in the product. Morgan Stanley is a strong No. 2 with a market penetration score of 42%, followed by Societe Generale with 33%. The following banks have market penetration scores between 23% and 28%: UBS,

Most Important Selection Criteria for ETF Trades



Note: Based on 30 respondents in North America and 23 in Europe. Asked of a random sample.

Source: Greenwich Associates 2014 Equity Derivatives Study

Bank of America Merrill Lynch, Goldman Sachs, J.P. Morgan, and Credit Suisse. These firms are the 2014 Greenwich Share Leaders in ETFs.

Greenwich Quality Leaders

Firms that receive quality ratings exceeding those of competitors by a statistically significant margin are named Greenwich Quality Leaders.

2014 Greenwich Share Leaders — ETF Market Penetration



North America

Broker	Important Relationships	Statistical Rank
Morgan Stanley	60%	1
Bank of America Merrill Lynch	47%	2T
Goldman Sachs	42%	2T
Citi	37%	4
Deutsche Bank	29%	5T
Credit Suisse	27%	5T
UBS	24%	5T

Europe

Broker	Important Relationships	Statistical Rank
Deutsche Bank	53%	1
Morgan Stanley	42%	2
Societe Generale/SG CIB	33%	3T
UBS	28%	3T
Bank of America Merrill Lynch	27%	5T
Goldman Sachs	25%	5T
J.P. Morgan	25%	5T
Credit Suisse	23%	5T
Barclays	22%	5T

Note: Includes top 5 relationship citations, distinctive service evaluations, and any mentions for transactions in specific ETF products. Based on interviews with 62 institutions in North America and 60 in Europe.

Source: Greenwich Associates 2014 Equity Derivatives Study

2014 Greenwich Quality Leaders — Options & Volatility Product Quality Coverage



North America

Broker

Bank of America Merrill Lynch
Goldman Sachs
Morgan Stanley

Europe

Broker

Deutsche Bank
Morgan Stanley

Note: Based on interviews with 136 institutions in North America and 152 in Europe. Leaders cited in alphabetical order including ties.
Source: Greenwich Associates 2014 Equity Derivatives Study

2014 Greenwich Quality Leaders — Equity Swaps Coverage Quality



North America

Broker

Bank of America Merrill Lynch
BNP Paribas
Goldman Sachs

Europe

Broker

BNP Paribas
Deutsche Bank
Morgan Stanley
Societe Generale

Note: Based on interviews with 77 institutions in North America and 54 in Europe. Leaders cited in alphabetical order including ties.
Source: Greenwich Associates 2014 Equity Derivatives Study

Consultants Jay Bennett, John Colon and John Feng advise on the institutional equity markets globally, including the use of equity derivatives.

Methodology

Between May and June 2014, Greenwich Associates interviews more than 150 equity derivatives users, including asset managers, hedge funds, insurers, pensions, and banks in North America and more than 170 in Europe. Respondents are asked to name the top 5-10 brokers they use for specific products and to rate the firms according to a series of qualitative factors in each product.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

© 2014 Greenwich Associates, LLC. All rights reserved. Javelin Strategy & Research is a subsidiary of Greenwich Associates. No portion of these materials may be copied, reproduced, distributed or transmitted, electronically or otherwise, to external parties or publicly without the permission of Greenwich Associates, LLC. Greenwich Associates®, Competitive Challenges®, Greenwich Quality Index®, and Greenwich Reports® are registered marks of Greenwich Associates, LLC. Greenwich Associates may also have rights in certain other marks used in these materials.

The Greenwich Quality LeaderSM and Greenwich Share LeaderSM designations are determined entirely by the results of the interviews described above and do not represent opinions or endorsements by Greenwich Associates or its staff. Such designations are a product of numerical scores in Greenwich Associates' proprietary studies that are generated from the study interviews and are based on a statistical significance confidence level of at least 80%. No advertising, promotional or other commercial use can be made of any name, mark or logo of Greenwich Associates without the express prior written consent of Greenwich Associates.



6 High Ridge Park Stamford CT 06905 USA

Tel: +1 203.625.5038/+1 800.704.1027

Fax: +1 203.625.5126

email: ContactUs@greenwich.com

www.greenwich.com