

## Leading Asian Equity Brokers Stabilizing Market Share

2014 Greenwich Leaders: Asian Equities & Equity Derivatives

Q4 2014

Bank of America Merrill Lynch and CLSA Asia-Pacific Markets are the top brokers in Asian equity trading for 2014.

As a group, the top 10 equity brokers in Asia have been remarkably consistent over the past eight years in terms of the names of the firms making up that list. However, as a number of major brokers took actions to optimize their business post crisis and several up-and-coming firms gained traction, the collective market share of the top 10 has eroded noticeably, slipping from an estimated 83.5% to 76% from 2007 to 2014. The decline mostly took place between 2009 and 2013, while the collective share of the top 10 has held steady since then. What has also changed over this near decade-long period is the order of the firms within the top 10.

Relative to fixed income and other businesses, equity brokerage is less capital-intensive. However, the Asian equity brokerage business is resource-intensive.

The Asian market is geographically huge and heterogeneous. Covering this expansive market is expensive. In

order to compete at the highest level, brokers must make sizable investments in offices, staff and infrastructure across most if not all of the larger country markets and industry verticals. Once a firm makes investments of this size it is fully committed, as evidenced by the consistent roster of top 10 brokers over the span of nearly a decade. On the other hand, as attractive as the Asian equity business appears, attempting to crack the ranks of leading brokers at this point is a daunting task requiring sizable outlays just to enter a playing field already crowded with entrenched competitors.

As a result, brokers not already in the top tier have largely chosen not to pursue waterfront coverage, but rather to focus, whether on specific countries or products, in some area of the business where they see themselves having some competitive advantage or being able to deliver a differentiated offering.

“Given the diversity of the Asian equity markets and the demand for liquidity by institutions, leading brokers are typically characterized by their ability to combine distinctive research and advisory coverage with robust execution

### Greenwich Share Leaders — 2014



#### Asian Equity Research/Advisory Share<sup>1</sup>

Broker	Vote Share	Statistical Rank
CLSA Asia-Pacific Markets	9.3%	1T
Bank of America Merrill Lynch	9.1%	1T
Credit Suisse	8.8%	1T
Morgan Stanley	8.5%	4
Deutsche Bank	7.5%	5

#### Asian Equity Trading Share<sup>1</sup>

Broker	Trading Share	Statistical Rank
Bank of America Merrill Lynch	9.8%	1T
CLSA Asia-Pacific Markets	9.6%	1T
UBS	9.0%	3
Credit Suisse	8.3%	4T
Morgan Stanley	8.1%	4T
Goldman Sachs	7.6%	4T

#### Options & Volatility Product Coverage — Asia<sup>2</sup>

Broker	Important Relationships	Statistical Rank
Morgan Stanley	71%	1
Goldman Sachs	63%	2T
Bank of America Merrill Lynch	57%	2T
Deutsche Bank	54%	2T
UBS	46%	5T
Citi	43%	5T

Note: <sup>1</sup>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 238 respondents at Asia Pacific institutions for Asian Equity Research/Advisory Vote Share (portfolio managers) and 110 for Equity Trading Share (traders). <sup>2</sup>Includes top 5 relationship citations, distinctive service evaluations and any mention for transactions in specific options & volatility products: listed and listed look-alike options across single-stock, index, custom baskets, and variance/volatility swaps, dispersion/correlation trades and "lite exotics"/structured flow options. Based on interviews with 35 respondents at buy-side institutions. Source: Greenwich Associates 2014 Asian Equity Investors and Equity Derivatives Studies

**2014 Greenwich Quality Leaders —  
Equities and Equity Derivatives**



**Asian Equity Sales and Corporate Access Quality<sup>1</sup>**

<b>Broker</b>
CLSA Asia-Pacific Markets
Credit Suisse

**Asian Equity Trading Quality<sup>2</sup>**

<b>Broker</b>
Bank of America Merrill Lynch

**Asian Equity Research & Analyst Service Quality<sup>1</sup>**

<b>Broker</b>
Bank of America Merrill Lynch
CLSA Asia-Pacific Markets
Credit Suisse
Morgan Stanley

**Options & Volatility Product Coverage Quality — Asia<sup>3</sup>**

<b>Broker</b>
Morgan Stanley

Note: <sup>1</sup>Based on 238 respondents at Asia Pacific institutions. <sup>2</sup>Based on 110 respondents at Asia Pacific institutions. <sup>3</sup>Based on 35 respondents.  
Sources: 2014 Greenwich Associates Asian Equity Investors and Equity Derivatives Studies

capabilities across the high-touch and low-touch spectrum,” says Greenwich Associates consultant Jay Bennett.

**Greenwich Leaders**

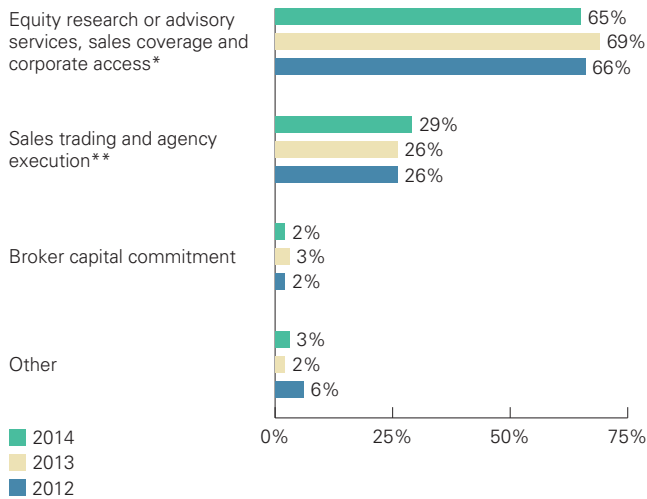
Bank of America Merrill Lynch and CLSA Asia-Pacific Markets are tied for the top spot in commission-weighted Asian equity trading with trading shares of 9.6–9.8%. UBS is next with a share of 9.0%, followed by Credit Suisse, Morgan Stanley and Goldman Sachs, which are tied for the fourth spot. These firms are the 2014

Greenwich Share Leaders in Asian Equity Trading. The 2014 Greenwich Quality Leader in Asian Equity Trading is Bank of America Merrill Lynch.

What also sets the Asian equities business apart from other major markets is the extent to which research and advisory services drive institutional trading volumes and, therefore, brokers’ trading revenues. As the accompanying graphic shows, institutions allocate about two-thirds of the commissions they pay on trades of Asian equities as compensation to brokers for their research and advisory services. The rest is mainly driven by value added via sales trading and agency execution. “Research and advisory services drive trading revenues in Asia more than they do in almost any other market,” says Greenwich Associates consultant John Feng. “This dynamic results in a high degree of correlation between the ranks of leading research/advisory providers and top trading firms, though those able to demonstrate outstanding execution quality can capture trading revenues beyond those generated by their research arms.”

**Allocation of Commissions for  
Research/Advisory vs. Execution**

Asian Institutions — Asian Traders



Note: Based on 99 trader respondents in 2014, 100 in 2013, and 101 in 2012.

\*Including the research portion of CSA arrangements. \*\*Includes price improvement, market impact, etc. and the execution portion of commission sharing arrangements.

Source: Greenwich Associates 2014 Asian Equity Investors Study

In Asian equity research and advisory services, CLSA Asia-Pacific Markets, Bank of America Merrill Lynch and Credit Suisse tie for the top spot with 8.8–9.3% commission-weighted shares of investors’ vote. Morgan Stanley is next at 8.5%, followed by Deutsche Bank at 7.5%. These firms are the 2014 Greenwich Share Leaders in Asian Equity Research and Advisory Services. The 2014 Greenwich Quality Leaders in Asian Equity Research and Analyst Service Quality are Bank of America Merrill Lynch, CLSA Asia-Pacific Markets, Credit Suisse, and Morgan Stanley.

The 2014 Greenwich Quality Leaders in Asian Equity Sales and Corporate Access are CLSA Asia-Pacific Markets and Credit Suisse.

## Options & Volatility Products

Institutions choosing a broker for trades of Asian options and volatility products tend to focus on three main factors: options pricing, consistency of strong service during periods of extreme volatility and quality of brokers' ideas for hedging or investments. The leading brokers in the market typically demonstrate clear strengths across some if not all of these areas. The 2014 Greenwich Share Leaders in Asian Options & Volatility Product Coverage are Morgan Stanley, which is used as a broker by 71% of active Asian options users, followed by Goldman Sachs, Bank of America Merrill Lynch and Deutsche Bank, which are tied for the second spot with market penetra-

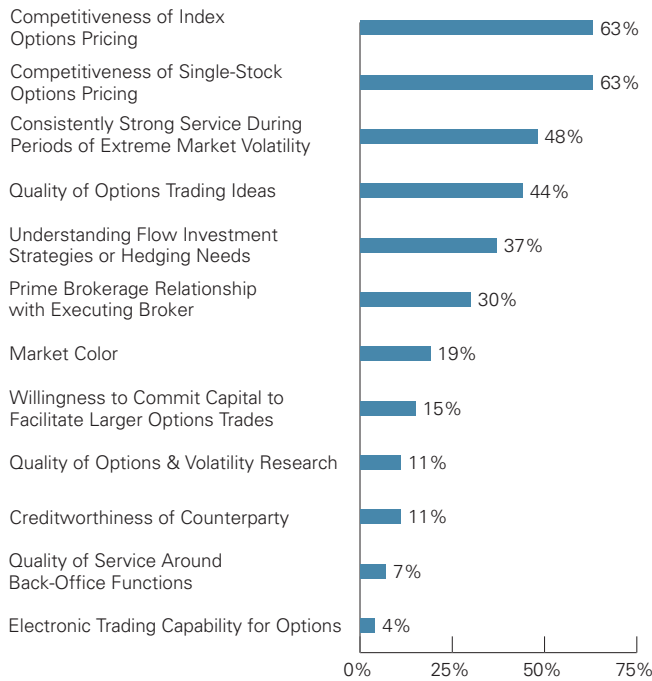
tion scores of 54–63%. Tied for fifth place are UBS and Citi, with scores of 43–46%. The 2014 Greenwich Quality Leader in Asian Options and Volatility Product Coverage is Morgan Stanley.

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*Consultants John Feng and Jay Bennett advise on the institutional equity markets in Asia.*

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## Most Important Selection Criteria for Options Trading



Note: Based on random sample of 27 institutional investors in 2014.  
Source: Greenwich Associates Equity Derivatives Asia 2014

## Methodology

Between June and September 2014 Greenwich Associates conducted interviews with 238 Asian equity fund managers and analysts, 110 traders and 35 users of equity derivative products at institutions based in Asia. Interview topics included overall market trends, compensation, and broker relationships.

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