

# For Equity Derivatives Brokers, the Wait for Volatility Continues

## 2018 Greenwich Leaders: Flow Equity Derivatives

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Executive Summary:



The waiting game for volatility continues for equity derivatives brokers.

For the past several years, brokers have been waiting for a surge in volatility that revitalizes trading business in flow equity derivatives products. It's true that 2018 has been a better year for the business than 2017, with listed options volume up some 20%. In fact, the volatility spike in the first half of the year had brokers thinking a rebound was at hand. The subsequent summer slowdown came as no surprise, and brokers remained relatively confident as they awaited the post-Labor Day recovery. They're still waiting—though October has raised hopes.

Nevertheless, the world's biggest banks are maintaining their commitment to this important and potentially lucrative business. In this report, we identify those top brokers and present the list of 2018 Greenwich Share and Quality Leaders in Flow Equity Derivatives, including Equity Options & Volatility Products, Equity Swaps and Equity Futures in Europe and North America.



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## 2018 Greenwich Share Leaders



### Equity Options & Volatility Product Market Penetration—North America (86)

Broker	Important Relationships	Statistical Rank
Goldman Sachs	69%	1
Bank of America Merrill Lynch	63%	2T
Citi	63%	2T

### Equity Swaps Market Penetration—North America (50)

Broker	Important Relationships	Statistical Rank
Goldman Sachs	82%	1
J.P. Morgan	62%	2

### Equity Futures Market Penetration—North America (59)

Broker	Important Relationships	Statistical Rank
Goldman Sachs	51%	1T
Morgan Stanley	51%	1T

### Equity Options & Volatility Product Market Penetration—Europe (111)

Broker	Important Relationships	Statistical Rank
J.P. Morgan	68%	1
Bank of America Merrill Lynch	56%	2T
Société Générale	56%	2T
Morgan Stanley	54%	2T

### Equity Swaps Market Penetration—Europe (41)

Broker	Important Relationships	Statistical Rank
J.P. Morgan	51%	1
Morgan Stanley	46%	2
Bank of America Merrill Lynch	41%	3

### Equity Futures Market Penetration—Europe (81)

Broker	Important Relationships	Statistical Rank
J.P. Morgan	47%	1
Bank of America Merrill Lynch	44%	2T
Goldman Sachs	43%	2T
Morgan Stanley	42%	2T

Note: Important relationships in 2018 include top 10 citations for equity options & volatility products, top 10 for equity swaps, and top 10 for equity futures execution. Numbers in parentheses reflect the number of respondents.

Source: Greenwich Associates 2018 Equity Derivatives Study

## Equity Options and Volatility Products

Institutional investors trading options and volatility products look for two primary things from a broker: capital commitment to help get trades done and high-quality electronic execution. As a result, the business is dominated by the largest banks that are willing to take on risk and have the resources to maintain sophisticated electronic platforms.

Big banks gain a further advantage from the concentrated nature of the business. On average, institutions use only six to seven counterparties for options trading—a small number compared to cash equities, where institutional investors typically use three to five times as many counterparties. “Brokers that win these trading relationships capture large shares of institutions’ trading volumes, ‘footprint’ and depth of relationships, which are critical measures,” says Greenwich Associates Managing Director Jay Bennett.

In market penetration terms, Goldman Sachs is the clear leader in North America, followed by Bank of America Merrill Lynch and Citi. In Europe, J.P. Morgan has the biggest footprint among options investors, followed by Bank of America Merrill Lynch, Société Générale and Morgan Stanley. These banks are the 2018 Greenwich Share Leaders<sup>SM</sup> in Options & Volatility Products.

J.P. Morgan is the 2018 Greenwich Quality Leader<sup>SM</sup> in Options & Volatility Product Coverage in Europe. In

North America, that title goes to Goldman Sachs.

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## 2018 Greenwich Quality Leaders



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### Equity Options & Volatility Product Coverage Quality—North America (86)

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#### Broker

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Goldman Sachs

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### Equity Options & Volatility Product Coverage Quality—Europe (111)

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#### Broker

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J.P. Morgan

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### Equity Swaps Coverage Quality—North America (50)

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#### Broker

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Goldman Sachs

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### Equity Swaps Coverage Quality—Europe (41)

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#### Broker

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J.P. Morgan

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Note: Numbers in parentheses reflect the number of respondents. Leaders cited in alphabetical order including ties.  
Source: Greenwich Associates 2018 Equity Derivatives Study

## Equity Swaps

“The relationship between footprint and trading share is less direct in the swaps business,” says Greenwich Associates consultant Tom Jacques. Although swaps trading is similar to the options business—in that it is highly concentrated, with institutional investors using a relative handful of counterparties to execute trades—there are several important factors that influence trade flows. For example, institutional investors pay close attention to the creditworthiness of their counterparties, and prime brokerage relationships are a significant driver of business for hedge funds. Due to these and other factors, brokers with smaller footprints often win large bulk trades that can have a sizable impact on overall trading share—especially in Europe.

J.P. Morgan, Morgan Stanley and Bank of America Merrill Lynch have the biggest market penetration scores in Europe. In North America, Goldman Sachs and J.P. Morgan top the market in penetration. These banks are the 2018 Greenwich Share Leaders in Equity Swaps. Goldman Sachs is the 2018 Greenwich Quality Leader in Equity Swaps Coverage in the United States. In Europe, that title goes to J.P. Morgan.

## Equity Futures

Like the options business, futures trading favors big banks with the resources to deliver in several areas considered top priorities by investors. “Execution capability, of course, must be top notch to win business in such a fast-moving, liquid market,” says Greenwich Associates consultant Satnam Sohal. Since roughly 45% of futures trading commissions are now generated by electronic trades, those capabilities must include a best-in-class electronic platform. Finally, investors direct big shares of their futures execution to brokers on the basis of clearing relationships and capabilities.

Showing strength in all these areas, Goldman Sachs and Morgan Stanley have achieved the largest footprint among futures investors in North America, while J.P. Morgan, Bank of America Merrill Lynch, Goldman Sachs,

and Morgan Stanley have the highest market penetration scores in Europe. These banks are the 2018 Greenwich Share Leaders in Equity Futures.

*Consultants [Jay Bennett](#), [John Feng](#), [Thomas Jacques](#), and [Satnam Sohal](#) advise on the institutional equity markets globally, including the use of flow equity derivatives and convertibles.*

#### Methodology:

Between April and June 2018, Greenwich Associates conducted interviews with 102 flow equity derivatives users, including asset managers, hedge funds, insurers, pensions, and banks in North America, and 126 in Europe. Respondents were 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.



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