

High and wide places focus on IS

The latest period under review saw traders in all global equity markets confronting ongoing challenges, often of a type not witnessed before. These included severely reduced liquidity, wider spreads, smaller average trade sizes and significantly less value being traded. Measured in dollar terms, levels are down by 40% from the same period a year ago. Obviously in part this reflects the decline in stock markets during the course of 2008, exacerbated by a general rise in the value of the US dollar. Nevertheless, in terms of

Implementation shortfall is key as a shortage of liquidity, wide spreads and a sharp reduction in the value traded adds to the cost of delay and compounds the high cost of trading.

commissions being paid and earned the decline is potentially traumatic.

Among the major markets the largest decline in activity was in Scandinavia, with Sweden and Norway both seeing a reduction of two-thirds

compared with the same period a year ago.

Implementation shortfall across these markets was between 80 and 110bps during the period under review. This was the highest seen for some time, even in markets that traditionally

“The lowest implementation shortfall in Europe and North America was 43bps, recorded in France.”

The data provided by GSCS Information Services is based on its global equity transaction cost measurement universe. This universe incorporates representative transactions from more than 300 investment management companies, using more than 500 institutional brokers. The total number of transactions in the universe grows at a rate of around six million per annum across more than 50 countries.

COUNTRY ANALYSIS – DEFINITIONS

Market impact

Market impact, expressed in basis points, is calculated based on a comparison between the execution price and the price of the security immediately before the trade was put in the market by the buy-side trading desk. This is commonly known as Release Time price.

Cost of delay

Cost of delay expressed in basis points represents the costs incurred as a result of delays between the decision to trade being made and the trade being put into the market.

Implementation shortfall

Implementation shortfall, expressed in basis points, reflects the difference of a paper portfolio versus the actual

portfolio purchased. This is calculated based on a comparison between the execution price and the price prevailing at the time the decision to trade is made (or where this is not known, the open price on the trade date).

Average commission

Commission, expressed in basis points, reflects all trades (including program trades) that bear commission. However, it excludes any principal or zero commission trading activity.

% zero commission

This shows the relatively low proportion of activity in most countries that is carried out by dealers acting as principal and not charging a commission to act as a broker on behalf of clients.

Country analysis – Q4 2008

see high costs of trading. This story was not unique to Scandinavia however. The lowest implementation shortfall in Europe and North America was 43bps recorded in France. By comparison, in the same period a year ago, seven of the 12 countries had an implementation shortfall cost of less than 40bps. Cost of delay in volatile markets is one factor in overall costs, but spreads have also grown in response to lower levels of trading by everyone in the market.

While the costs of trading are increasing dramatically, clients are trying to at least reduce the cost of commissions. Use of algorithms to lower average commission levels is one response. In addition, portfolio managers now have more information about how much they are paying for research and are cutting back as a result. Average agency commissions outside of Asia are now only just above 10bps in most countries. It seems likely that if downward pressure on total revenues increases, average commissions may fall below the psychologically important 10bps threshold even for full-service broking. ■

COUNTRY ANALYSIS

| | Market impact | Cost of delay | Implementation shortfall | Average agency commission | % zero commission |
|-----------------------|---------------|---------------|--------------------------|---------------------------|-------------------|
| | (bp) | (bp) | (bp) | (bp) | (%) |
| <i>Europe – major</i> | | | | | |
| Finland | 39 | 39 | 78 | 12 | 2.8 |
| France | 29 | 17 | 45 | 7 | 6.2 |
| Germany | 38 | 55 | 93 | 10 | 5.3 |
| Italy | 46 | 14 | 61 | 10 | 2.1 |
| Netherlands | 36 | 47 | 83 | 11 | 4.1 |
| Norway | 126 | -17 | 109 | 12 | 2.6 |
| Spain | 47 | 22 | 68 | 11 | 3.5 |
| Sweden | 37 | 47 | 84 | 12 | 2.1 |
| Switzerland | 18 | 53 | 71 | 11 | 2.8 |
| UK | 36 | 34 | 69 | 11 | 4.5 |
| <i>North America</i> | | | | | |
| Canada | 65 | 49 | 114 | 11 (4.1 c/s) | 2.7 |
| US | 32 | 60 | 93 | 10 (2.7c/s) | 4.7 |
| <i>Asia – major</i> | | | | | |
| Australia | 6 | 16 | 22 | 16 | 1.4 |
| Hong Kong | 84 | 61 | 144 | 15 | 0.7 |
| Japan | 25 | 11 | 35 | 10 | 1.1 |
| Korea | 118 | 30 | 148 | 23 | 0.3 |
| Singapore | 6 | 118 | 124 | 21 | 1.5 |
| Taiwan | 59 | 0 | 59 | 22 | 0.4 |
| <i>Other – select</i> | | | | | |
| Brazil | 27 | 63 | 90 | 20 | 3.3 |
| Greece | 91 | 18 | 110 | 15 | 1.5 |
| Hungary | 77 | 57 | 134 | 36 | 0.2 |
| Ireland | 71 | 17 | 88 | 13 | 4.2 |
| Malaysia | 13 | 119 | 132 | 23 | 0.2 |
| Mexico | 36 | 104 | 139 | 21 | 0.6 |
| Poland | 1 | 79 | 80 | 28 | 0.2 |
| Portugal | 63 | 9 | 73 | 14 | 3.6 |
| South Africa | 48 | 75 | 123 | 16 | 2.9 |
| Thailand | 1 | 7 | 8 | 28 | 0.7 |

Leading stocks – Q4 2008

Sell, sell ... buy

Stocks continued to see a net sell-off during the period, though some securities were bought more often than sold. These included most notably Wells Fargo in the US, Roche in Switzerland and Nintendo in Japan. While these saw an average buy/sell ratio of two-to-one in favour of buys, they were a long way short of some of the very popular plays seen in the previous 12 months. In contrast, there were sell-offs where the ratio was 4:1 in stocks such as Statoil in Norway, ENEL in Italy as well as Telefonica in Spain, and Telenor in Norway. There were also changes in terms of the leading brokers in some of the most widely traded stocks. CA Cheuvreux was clearly active in a number of the most active European stocks, with UBS much less conspicuous than in some previous periods (see later comments under broker rankings).

Even with these widely traded stocks, the cost of trading was typically much higher than normal. Implementation shortfall costs of more than 60bps were commonplace with

LEADING STOCKS

| | Market impact (bp) | Cost of delay (bp) | IS* (bp) | Buy (%) | Sell (%) | Leading brokers |
|--------------------|--------------------|--------------------|----------|---------|----------|---------------------------------------|
| <i>US</i> | | | | | | |
| Exxon | 83 | 19 | 102 | 47.4 | 52.6 | Deutsche/MLynch/Credit Suisse |
| Walmart | 37 | 47 | 84 | 43.1 | 56.9 | MLynch/Deutsche/UBS |
| Wells Fargo | 35 | 49 | 83 | 68.3 | 31.7 | JPMorgan/BankAmerica/Credit Suisse |
| <i>Canada</i> | | | | | | |
| Barrick Gold | 1 | 66 | 67 | 29.8 | 70.2 | UBS/Goldman/RBC |
| Agnico Eagle | 124 | 136 | 260 | 47.6 | 52.4 | UBS/MLynch/TD Waterhouse |
| Potash Corp | 95 | 165 | 259 | 26.3 | 73.7 | MLynch/TD Waterhouse/Citi |
| <i>Finland</i> | | | | | | |
| Nokia | 39 | 34 | 74 | 47.9 | 52.1 | CA Cheuvreux/Citi/JPMorgan |
| Sampo | 35 | -10 | 24 | 54.6 | 45.4 | Citi /UBS/Citation |
| UPM | 34 | 6 | 40 | 61.3 | 38.7 | Credit Suisse/Svenska/CA Cheuvreux |
| <i>France</i> | | | | | | |
| Total | 25 | 13 | 38 | 52.6 | 47.4 | MLynch/CA Cheuvreux/JPMorgan |
| BNP Paribas | 50 | 41 | 91 | 67.4 | 32.6 | MLynch/CA Cheuvreux/Deutsche |
| Gaz de France | 26 | 55 | 81 | 59.0 | 41.0 | MLynch/CA Cheuvreux/JPMorgan |
| <i>Germany</i> | | | | | | |
| E.ON | 49 | 127 | 176 | 31.4 | 68.6 | JPMorgan/Morgan Stanley/Exane BNP |
| Allianz | 10 | 32 | 42 | 48.8 | 51.2 | CA Cheuvreux/Deutsche/Citi |
| Bayer | 2 | 0 | 2 | 51.2 | 48.8 | CA Cheuvreux/Deutsche/Goldman |
| <i>Italy</i> | | | | | | |
| ENI Spa | 57 | -49 | 8 | 51.1 | 48.9 | CA Cheuvreux/Citi/Deutsche |
| Unicredito | 28 | -46 | -18 | 43.3 | 56.7 | Deutsche/Credit Suisse/Citi |
| ENEL | 71 | 10 | 81 | 17.4 | 82.6 | Deutsche/Goldman/Intermobiliare |
| <i>Netherlands</i> | | | | | | |
| Royal Dutch | 62 | -25 | 36 | 33.0 | 67.0 | ING/Goldman/MLynch |
| Philips | 17 | 40 | 57 | 55.6 | 44.4 | UBS/Morgan Stanley/Deutsche |
| ING | 10 | 286 | 296 | 46.6 | 53.4 | CA Cheuvreux/Credit Suisse/MLynch |
| <i>Norway</i> | | | | | | |
| Statoil | 64 | -18 | 46 | 11.6 | 88.4 | Citi/UBS/Morgan Stanley |
| DNB-NOR | 183 | 16 | 199 | 31.8 | 68.2 | ABG/Carnegie/Instinet |
| Telenor | 93 | 67 | 161 | 20.2 | 79.8 | Enskilda/Goldman/HSBC |
| <i>Spain</i> | | | | | | |
| Telefonica | 7 | 35 | 42 | 20.2 | 79.8 | MLynch/Morgan Stanley/Deutsche |
| Banco Santander | 19 | 12 | 31 | 42.7 | 57.3 | Morgan Stanley/Goldman / CA Cheuvreux |
| BBVA | 17 | 115 | 132 | 55.0 | 45.0 | MLynch/Fidentiis/Citi |

*IS = Implementation shortfall

Leading stocks – Q4 2008

LEADING STOCKS

| | Market impact (bp) | Cost of delay (bp) | IS* (bp) | Buy (%) | Sell (%) | Leading brokers |
|--------------------|--------------------|--------------------|----------|---------|----------|---------------------------------------|
| <i>Sweden</i> | | | | | | |
| Ericsson | 5 | 61 | 57 | 46.2 | 53.8 | Enskilda/MLynch/Morgan Stanley |
| Astra | 58 | -75 | -17 | 54.9 | 45.1 | Danske/Svenska/MLynch |
| Atlas Copco | 70 | 175 | 245 | 48.0 | 52.0 | Societe Generale/MLynch/Citi |
| <i>Switzerland</i> | | | | | | |
| Nestle | 52 | -33 | 19 | 58.7 | 41.3 | MLynch/Goldman/Citi |
| Roche | 37 | 38 | 75 | 64.9 | 35.1 | UBS/Deutsche/MLynch |
| Novartis | 27 | 66 | 93 | 35.7 | 64.3 | UBS/MLynch/Credit Suisse |
| <i>U.K.</i> | | | | | | |
| HSBC | 13 | 70 | 83 | 57.6 | 42.4 | Credit Suisse/Goldman/Citi |
| BP | 14 | 13 | 27 | 39.5 | 60.5 | MLynch/Redburn/Deutsche |
| Vodafone | 29 | 17 | 46 | 59.9 | 40.1 | Deutsche/Arbuthnot/MLynch |
| <i>Australia</i> | | | | | | |
| BHP | 2 | 0 | 2 | 56.6 | 43.4 | UBS/Deutsche/JPMorgan |
| Rio Tinto | 37 | 7 | 45 | 38.3 | 61.7 | UBS/Deutsche/CLSA |
| Commonwealth Bank | 31 | 36 | 67 | 64.5 | 35.5 | UBS/JPMorgan/MLynch |
| <i>Hong Kong</i> | | | | | | |
| China Mobile | 12 | 79 | 91 | 68.3 | 31.7 | Citi/Deutsche/UBS |
| China Construction | 140 | 75 | 215 | 48.9 | 51.1 | Morgan Stanley/CLSA/Macquarie |
| China Life | 79 | -12 | 67 | 61.7 | 38.3 | Morgan Stanley/JPMorgan/Citi |
| <i>Japan</i> | | | | | | |
| Mitsubishi UFJ | 0 | 1 | 1 | 55.4 | 44.6 | Nomura/Citi/MLynch |
| Nintendo | 2 | -26 | -24 | 66.2 | 33.8 | CLSA/Macquarie/UBS |
| Toyota | 40 | 8 | 47 | 38.6 | 61.4 | CLSA/Citi/Credit Suisse |
| <i>Singapore</i> | | | | | | |
| DBS | 88 | -129 | -41 | 33.5 | 66.5 | MLynch/Kim Eng/Morgan Stanley |
| UOB | 4 | 35 | 40 | 46.8 | 53.2 | Morgan Stanley/UBS/Nomura |
| Singapore Telecom | 11 | 141 | 152 | 44.8 | 55.2 | Morgan Stanley/Deutsche/Credit Suisse |
| <i>South Korea</i> | | | | | | |
| Samsung | 70 | -18 | 53 | 36.5 | 63.5 | Deutsche/JPMorgan/UBS |
| SK Telecom | 116 | 31 | 147 | 77.1 | 22.9 | Deutsche/MLynch/JPMorgan |
| Posco | 205 | 17 | 221 | 50.1 | 49.9 | Exane BNP/JPMorgan/Nomura |
| <i>Taiwan</i> | | | | | | |
| Taiwan Semi | 12 | 4 | 16 | 67.1 | 32.9 | Deutsche/Morgan Stanley/JPMorgan |
| Chunghwa Telecom | 102 | 12 | 113 | 47.1 | 52.9 | Morgan Stanley/Nomura/MLynch |
| High Tech Computer | 60 | 32 | 92 | 74.2 | 25.8 | Credit Suisse/Deutsche/Goldman |

*IS = Implementation shortfall

LEADING STOCKS – DEFINITIONS

For each of 10 European major markets plus the US, the three most widely traded securities during the last quarter are identified. The ‘Buy/Sell (%)’ indicates the value of buys and sells as a percentage of the total value traded. It indicates the extent to which institutional investors as a whole were adding to their position during the period. The table identifies the three brokers that handled the highest proportion of trading activity in the stock.

“The cost of trading was typically much higher than normal... Market volatility encouraged everyone to trade more and more quickly.”

market volatility encouraging everyone to trade more and more quickly in smaller size. ■

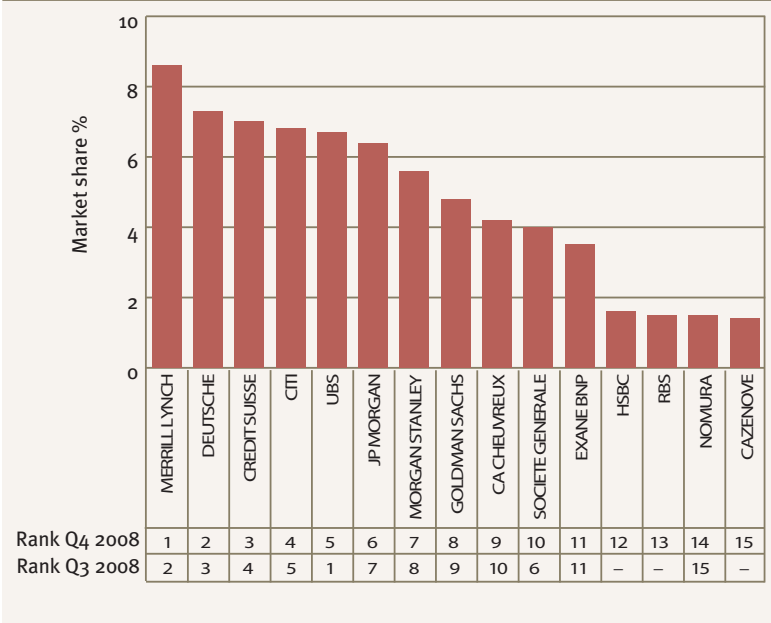
Leading brokers – Q4 2008

Rank and file change bites

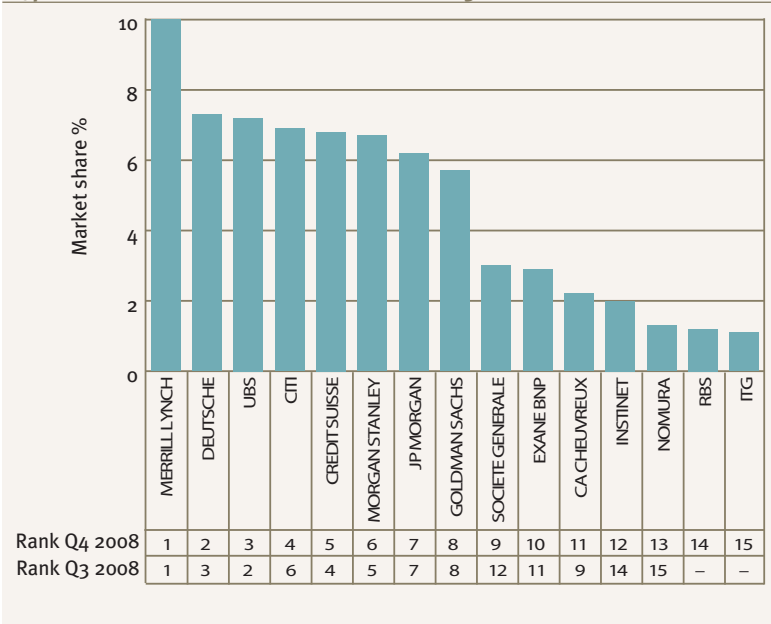
The latest period under review saw dramatic changes in the sell-side landscape. Most obvious was the disappearance of Bear Stearns and Lehman Brothers from the league tables. Though the cash equity businesses of both firms continued under a new name it would seem that there was a real hiatus in activity from these businesses, yet to be recovered. J.P. Morgan improved its market share of value traded from 5.6% to 6.4% and gained more in terms of commission (up from 4.8% to 6.2%). This would suggest that much of the Bear Stearns activity has been integrated. However, Lehman's share of value traded was as high as 5.5% and accounted for 3.7% of commissions in the first half of 2008. In the latest period, Nomura's share of value traded was unchanged from pre-Lehman levels and Barclays still failed to register in the top 15 global brokers or the top 10 brokers for US equities.

In addition to the loss of business caused by firms being acquired, the figures also reflect the problems of

Q4 2008 LEADING GLOBAL BROKERS – TOP 15 RANKED BY COMMISSION

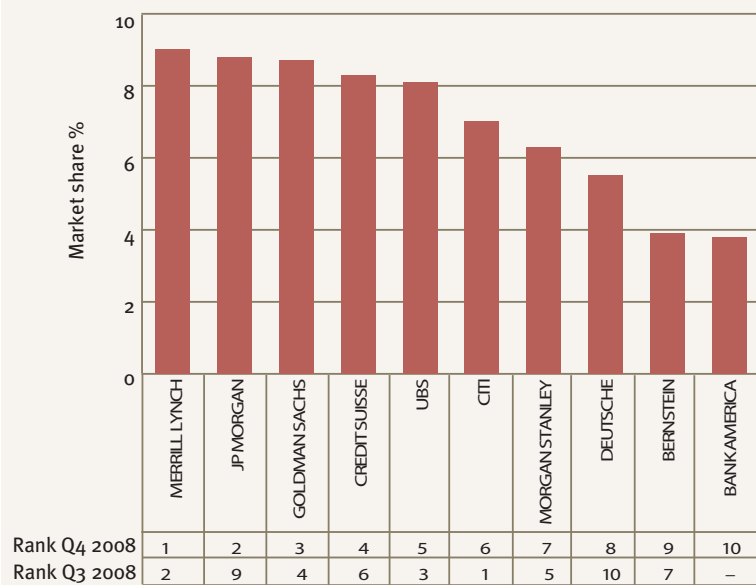


Q4 2008 LEADING GLOBAL BROKERS – TOP 15 RANKED BY VALUE TRADED



Leading brokers – Q4 2008

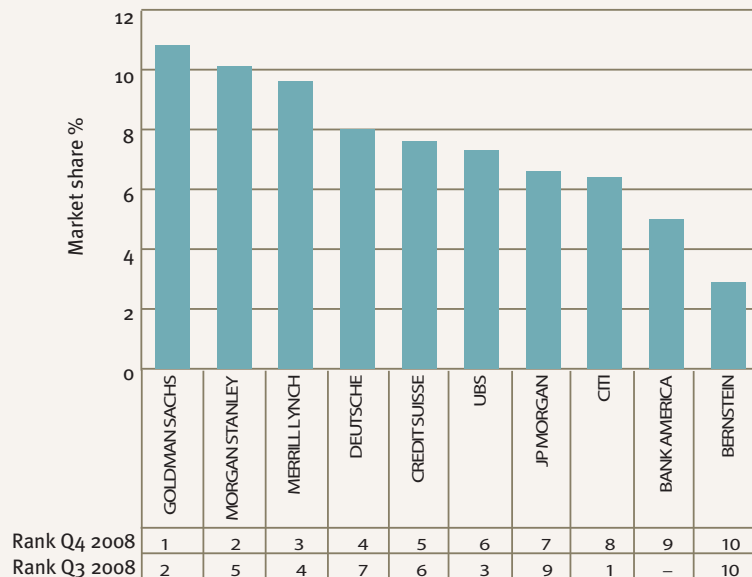
Q4 2008 LEADING US BROKERS – TOP 10 RANKED BY COMMISSION



individual institutions. UBS, a bank with some well-publicised difficulties, saw its rank in terms of value traded fall from first to fifth. Its market share of value traded, which had been as high as 10% in early 2008 was a comparatively modest 6.7%, though its share of commissions was somewhat stronger at 7.2%. Citi and Merrill Lynch, by contrast, saw business hold up relatively well, though the full ramifications of Merrill's change of ownership and Citi's change of business focus may still have some way to run.

It is not yet clear who the winners and losers from the shakeout will be, but some signs are starting to emerge. ■

Q4 2008 LEADING US BROKERS – TOP 10 RANKED BY VALUE TRADED



LEADING BROKERS – DEFINITIONS

Market share 'by value traded' is calculated based on the level of trading completed across all global equity markets. The share 'by commission' reflects the combination of both the value traded and the average commission rates charged. It is reasonable to assume that where market share by commission exceeds market share by value, above-average levels of commission are generally being charged.