

Transparency and CONFLICT-FREE –

on important role in the financial services industry this Millennium

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There have been many weeks in recent years when we opened the newspapers and read about the ever-growing demand and need from investors for greater transparency and conflict-free services from financial institutions, or when financial service providers have been fined and punished for improper market practice. Headlines like: “One of Europe’s largest banks was fined by the UK’s securities regulator for making its own trades in stocks before executing the trade for a client” (April 2004), or “One of the biggest mutual fund groups in the US charged with improper mutual fund trading has finally settled with regulators agreeing to pay US\$110m in fines” (April 2004), or “Financial Institution being ordered to pay €30m in damages to a luxury goods conglomerate for publishing “erroneous and biased” research (January 2004).¹

The increasing understanding by asset owners of the ever-evolving financial services industry is one of the leading forces behind the demands for greater transparency, conflict-free services and tighter regulatory controls. In the coming years, even greater emphasis has to be placed on assisting asset owners in understanding the labyrinth of the financial world. Ultimately, it is the asset owners’ hard earned money that managers invest, and unfortunately, not every asset manager may put as much weight towards obtaining best execution and best service as the client himself.

Many asset managers are changing their business models to accommodate the obligations for greater

transparency on cost and the drivers of their investment decisions. One of the ways to deal with this is by choosing research and sourcing the investment advice from third-party Independent Research Providers (IRP), who are free from any potentially conflicting businesses. This leaves the asset manager to find a broker to take care of their transactions. What better way than to execute the business through an agency-only execution broker, comforting the investor with the knowledge that the transactions are dealt with in his interest only and do not conflict with proprietary trading activities.

Having two providers, each paid separately, for these two distinct services, ensures transparent, conflict-free service and best execution management of the investors' business. With full-service brokers, it is hard to quantify how much of the commission goes towards paying for the clearance, settlement and execution of a transaction, and how much is applied for the investment advice. Nowadays, asset managers are no longer required to purchase one product or service as a condition to receiving another.

The Bank of New York, through BNY Securities Group, recognises these demands and market changes and provides investors with conflict-free execution services and a unique way to access independent research. BNY Securities Group's execution businesses, including G-Port, its global portfolio agency brokerage, gives significant commitment to the word "conflict-free" by offering investors a choice of execution platforms on which to direct their trading flow on an agency-only basis. As an agency broker, there is no incentive other than obtaining the best execution reasonably available on behalf of the client. The client pays for this service with a fully disclosed commission, thereby, fulfilling the transparency requirements demanded from investors and now, increasingly, the regulators.

BNY Jaywalk, the leading aggregator of independent research and member of BNY Securities Group, gives significant commitment to both words "transparency" and "conflict-free" by delivering a global network with access to more than 150 IRPs, whilst fulfilling the regulators' mandate to get the best possible research into the hands of investors.

With BNY Jaywalk, investors can select from the highest performing sources of independent research in an environment where all costs are completely transparent. A function within BNY Jaywalk gives clients access to a proprietary rating system, which allows them to sort and analyse research on approximately 6,000 issuers

according to pre-selected factors. The clients can measure performance of the IRP and choose only those who are providing real value.

Independent research includes, but is not limited to, fundamental and technical research on individual issuers, industry and sector analysis and broad based economic research. Today some 12% of the institutional commission market (US\$1bn out of US\$8.4bn in 2003) is paid towards independent research. This number will increase significantly over the next few years simply due to greater transparency and quality services.

Greater understanding of the pitfalls of dealing with conflict-ridden institutions has resulted in greater transparency and understanding of the way financial business is conducted. This in turn supports the building of a platform where we will have an even playing field without any hidden structures where investors know what they pay for a service and what they get in return.

Note:

I. Headlines were taken from the following sources: Evening Standard/Bloomberg/FT/
Financial News



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