



Canada's Equity Market and The Role of The Buy-Side Trader Are About to Change Dramatically as Money Managers Embrace Electronic Trading, A New Study Finds

eClientscope Research Finds That 9 Out of 10 Money Managers in Canada Are Already Connected to Electronic Trading Systems; Although Less Than Two Make Significant Use of Them Right Now, This Is Going to Change in 2006

Results of In-Depth Interviews with Traders at 30 Investment Management Firms That Manage C\$1 Trillion in Aggregate Assets

Toronto, Canada, August 16, 2005 – According to a new report issued today by Toronto-based consulting firm eClientscope Inc., "Buy-side Electronic Trading and Best Execution in Canada", technology has taken the Canadian investment industry by storm in the last two years. Buy-side adoption of advanced order management systems has increased by 240% since 2003. Six out of 10 money managers are now using an advanced order management system and 87% of the buy-side equity trading desks are connected to electronic trading systems. As a result, major changes are forecast in the way the Canadian equity market operates. The role and skill sets of the buy-side traders are also poised for changes.

The study is sponsored by Bloomberg Tradebook Canada Company, Plexus Group Inc. and TSX Datalinx. The report summarizes interviews with head and senior traders at 30 buy-side firms across Canada. These firms manage more than C\$1 trillion in aggregate assets and represent several manager segments.

eClientscope projects that 2006 will be a turning point for the Canadian institutional equity market. Today the telephone is still used for two-thirds of Canada's equity order flow. Less than 1 in 5 buy-side trading desks now use electronic trading systems for 20% or more of their equity trading. As more money managers order management plans are put in place, the telephone will be replaced by electronic order routing as the dominant method of trade communications. Buy-side traders also plan to direct one-fifth of their equity business to electronic trading systems in 2006.

"The structure of the Canadian buy-side equity desk points to the need for technology," says Jackie Chung, eClientscope principal and author of the report. "With just a few equity traders managing numerous broker relationships, many buy-side trading desks have turned to technology to assist them to do more for less, and to minimize costly manual errors."

"As the trading landscape transforms, buy-side traders are looking for new ways to add more value and thrive in the change. Meanwhile, regulators are stepping up pressure on the money managers to prove that they have achieved the best price and best execution for the clients. As a result, nearly 90% of the buy-side equity trading desks plan to use transaction cost analysis tools to assist them to measure and create value in 2006," adds Chung.

Marie Konstance, Director of Sales and Product Management, Plexus Group Inc, a firm specializing in transaction cost analysis comments, "The competitive environment drives traders to utilize technology to trade strategically. Traders realize that any reduction in trading cost can add to bottom line investment performance. Transaction cost analysis can give traders vital feedback on how to employ the trading methodologies at their disposal in the most effective manner."

As the world of electronic trading unfolds, technology will free up traders from manual tasks and place a premium on analytical skill sets. The future buy-side traders at Canada's equity desks will be adding value beyond trade execution and be more involved in the investment process.

The report also covers the Canadian buy-side trading desks' usage trends and volumes for direct market access, algorithmic trading and FIX trading language, as well as practices and plans for best execution, soft dollar and broker relationships. Buy-side traders' views on how they can add more value and how their role will evolve are also discussed.

An Executive Summary of the 48-page report with 37 exhibits is available at www.eclientscope.com, in the Research section.

About eClientscope Inc.

eClientscope is a Canadian-based financial industry consultancy. The firm has been involved in establishing and managing the Canadian Capital Markets Association (CCMA)'s STP Program Office. Through our CCMA involvement and our research and consulting activities on investment manager operational efficiency, we are familiar with the needs of the Canadian investment industry. Our principals combine real-world financial industry experience with extensive operational and technology expertise. eClientscope's current focus is securities operational efficiency and the innovative possibilities that end-to-end automation can bring to securities processes. For more information, visit www.eclientscope.com.



Buy-side Electronic Trading and Best Execution in Canada

Executive Summary

The institutional equity trading landscape in Canada has long been characterized by thousands of phone calls between buy-side traders and their brokers. The buy-side's reluctance to invest in technology is often cited as a stumbling block that slows the development of electronic trading.

But in the face of mounting pressures from regulators and clients to prove best execution, control costs and reduce errors, Canadian buy-side firms today demand that their trading desks deliver more for less. To survive and thrive in the change, many buy-side traders have turned to technology to increase efficiency and reduce errors. As a result, technology has taken the Canadian investment industry by storm in the last two years. The world of electronic trading is already here. The penetration of technology in institutional equity trading will transform the way Canada's equity market operates, and cause significant changes in the role and skill sets of the buy-side traders.

To start with, buy-side adoption of advanced order management systems (OMSs) has reached a critical mass. Since 2003 the penetration of OMSs in the Canadian buy-side has increased by 240%. Six out of 10 money managers now have an OMS in place. Not only that, 87% of the buy-side trading desks are already connected to electronic trading systems (ETSs) that enable them to execute trades electronically at lower trading commissions than through the traditional brokers and to access the exchanges directly. The Canadian buy-side's investment in OMSs and ETSs refutes the myth that they do not invest in technology.

Currently many of these newly installed technology tools are not being fully utilized as most buy-side traders are still testing and learning how to use them. The telephone is still used for two-thirds of Canada's equity order flow. Less than 1 in 5 buy-side trading desks use electronic trading systems for 20% or more of their equity trading activities. However, eClientscope forecasts that 2006 will be a turning point for the Canadian institutional equity market. As more money managers order management plans are put in place, and as existing OMSs implement FIX connectivity, the telephone will be replaced by electronic order routing as the dominant method of trade communications. Buy-side traders also plan to direct one-fifth of their equity business to electronic trading systems in 2006.

The rapid adoption of technology in equity trading by the Canadian buy-side is driven by the structure of its equity trading desks. Unlike many of their US peers that have a large team of in-house equity traders, Canadian buy-side firms typically have a small equity trading desk. With just a few traders managing numerous broker relationships, many buy-side equity desks have turned to technology to increase trading and operational efficiency, and to minimize costly manual errors. The transparency of the Canadian equity market also prompts traders to seek ways to maintain anonymity via electronic trading.

Although the technology infrastructure is taking shape and traders are planning to buy and sell more stock via the ETSs, eClientscope sees that the path for the Canadian buy-side firms to get to the electronic trading nirvana is still lined with obstacles. Traders have identified several

impediments related to industry practices, the Canadian market structure and internal technology constraints that prevent them from trading more on the ETSSs. In particular, it will take some time for algorithmic trading to grow from its infancy to the stage of being widely used in Canada.

Meanwhile, as the trading landscape evolves, the buy-side traders themselves are also ready for change. Many are looking for new ways to add more value in the investment process to stay ahead of the curve. Traders' desire to add more value and enhance investment performance is driving interest in transaction cost analysis (TCA). Nearly 90% of the Canadian buy-side trading desks plan to use transaction cost analysis tools before and after the trade to assist them to measure value and create value. Regulatory pressures for money managers to prove that they have achieved the best price and best execution for the clients is also a driving force behind the buy-side's interest in TCA.

As the world of electronic trading unfolds in Canada, eClientscope projects significant changes in the role of the buy-side traders and the skill-sets that they command. Technology will not replace human traders; it simply empowers the traders with additional tools to take more direct control of their trade flow and their future. The expertise, knowledge and experience that a trader commands will still be the key to success in the shifting trading landscape. However, technology will free up traders from manual tasks and place a premium on analytical skill sets. In fact, 60% of the buy-side traders see themselves using more automation and electronic trading technology going forward.

Traders themselves are also becoming more aware of their own accountability and responsibility as they prepare for the change. The future buy-side traders will be adding value beyond trade execution, and be more involved in the investment process.

The eClientscope "Buy-side Electronic Trading and Best Execution in Canada" Report

This report summarizes the interviews that eClientscope principal Jackie Chung conducted with head and senior traders at 30 buy-side firms across Canada. These firms manage more than C\$1 trillion in aggregate assets and include four manager segments. The report covers the Canadian buy-side trading desks' usage trends and volumes for electronic trading, direct market access, algorithmic trading, FIX trading language and transaction cost analysis, as well as their practices and plans for best execution, soft dollar and broker relationships. Buy-side traders' views on how they can add more value and how their role will evolve are also discussed. The report is 48 pages including 37 exhibits. See below for a table of contents.

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