



Monitoring commission costs is a top priority at many firms. Through CAPIS's performance reporting group, we are continually reviewing domestic and international commission statistics for trends and information. Based on data collected from 1,090 manager observations, over 1 million transactions and \$269 billion of principal traded, these statistics provide valuable insight into industry trends. Please note that the statistics represent a range of brokers including electronic, agency, regional and bulge bracket brokers and are not specific to CAPIS. Below are a few highlights of what we observed during the first quarter of 2009.

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First Quarter Statistics

Average Commission Rates

USD - .023 cps
Non-USD - 12.1 bps

Execution Only Percentage

USD (<= 2 cps) - 30%
Non-USD (<= 8 bps) - 15%

Est. Research Commissions

USD - 60%
Non-USD - 84%

Commission Recapture Rate

USD - 8%
Non-USD - 1%

Focus on Average Commission

Average commission rates continue to fall

Both domestic and international rates see decline

Average commission rates have been falling for a number of years and our universe continues to show a decline in rates. We have seen USD commissions decline from .031 to .027 cps or 12.9% from Q4 2006 to Q4 2007 and fall another 14.8% by Q4 2008. International experienced a larger drop in 2007 of 17.9% (15.6 to 12.8 bps), but a smaller decline of 5.5% in 2008.

Outlook for Commission Rates

Thin margins may lead to domestic rate stabilization

- **Domestic** - Volatility in the fourth quarter reached record levels when measured by the VIX index, which is the CBOE's measure of volatility. The VIX dropped from a high above 80 in October and November to below 30 in mid-May. Volatility generally leads to more high touch trading as the buy side looks for the added expertise that sell side traders can provide. As we move into the traditionally slower summer months lower volatility and volumes could lead to a shift to lower cost trading tools such as algorithms and dark pools.

If this occurs we could see average rates continue to drift lower. However, with the decline of AUM over the past year, many managers are looking for ways to offset costs which may lead to increased use of commissions to pay for research and brokerage services. This scenario would likely lead to a stabilization in commission rates. Even if rates continue to drop, we don't expect to see commissions go much lower in the short term as many brokers are already working on fairly thin margins at the current levels and reduced volumes will make it more difficult to lower rates.

- **International** - While US commissions average about 14% higher than the 2 cps that we consider to be an execution-only rate, International commission averages are still approximately 34% higher than the 8 bps we consider ex-only. Since the implementation of MiFID in Europe, a number of lower cost alternative execution venues have been created. As the number of new multilateral trading facilities (MTFs) has continued to grow, many have cut prices in an effort to attract volume. BATS Europe and Nasdaq OMX Europe both recently announced price reductions in an attempt to attract liquidity and increase market share. In addition, Goldman Sachs, Morgan Stanley, and UBS recently agreed to link their dark pools, which will provide more depth to traders seeking to execute in lower cost dark pools. Many of the MTFs are struggling to make money which will likely lead to a consolidation in the future and possibly higher prices, however in the short term this should lead to lower commissions in Europe.



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