CLSA keen to remain Asia's exception

The Hong Kong-based brokerage might be owned by Citic Securities, but it is keen to retain its vibrant research-based business model, even in the face of mounting costs. ***Richard Morrow*** *reports.*

Back in 1989 an entire set of equity brokerages were locked in fierce competition to gain a part of the equity trading of the city and region. Today only one remains: CLSA. It is also the best-regarded equity brokerage in Asia, as successive Broker Polls results have underlined, ever since the launch of our oldest poll in 1990.

The company has changed enormously over the past 25 years. "CLSA was started by a couple of journalists in Hong Kong in the mid-1980s," recalls Jonathan Slone, chief executive of the brokerage. "As such, by whatever measure you use – revenue, profits, people, stocks or countries covered – we have had sizeable growth."

Today the brokerage covers 12 markets in Asia, including Australia and Japan, as well as possessing a sizeable team in the US. All-told it covers 1,200 stocks. "It's a long way from where we started in 1986," says Slone.

That said, it's not all been plain sailing. Slone reiterates a common complaint among finance managers, the rising regulatory-related costs. Added to this is the ever-present downwards pressure on commission rates. The brokerage has had to keep abreast of the massive change technology has had on broking too.

"Twenty-five years ago this was exclusively a high-touch business," Slone says. "Technology has brought great advances but the challenge is how to sustain today's high-cost business environment in the face of low-touch, high frequency trading models."

Edmund Bradley, head of research at the brokerage, adds that his side of the business has increasingly had to accommodate the impact of China. "This is a story we have been telling since the start and in 1990 Gary Coull [co-founder of CLSA] produced a short movie called 'The Vanishing Border' to promote the idea that Hong Kong would integrate with China and the mainland would become a manufacturing powerhouse."

Ironically, it also proved a predictor of CLSA's own destiny. In 2012 the brokerage's management and its majority parent Crédit Agricole agreed to sell to China's Citic Securities, a process that was completed in July 2013.

The shift in ownership has led to questions over whether the brokerage can escape any damage to its reputation as an irreverent and non-conflicted research house. Slone argues Citic Securities knows that CLSA's key strength is the integrity of its research.

"CLSA has always valued its independence and Citic Securities supports this as an important part of our DNA," he says. He also notes that CLSA hopes to benefit from the slow but definite interest of more Chinese investors in placing their money offshore, something that's likely to accelerate as Beijing further eases capital controls.

"With Citic Securities' backing, we look forward to being more relevant to Chinese companies looking to expand their investor base overseas and to provide global investors' access to China," says Slone.

The other part of the equation will be how successfully CLSA can leverage its new owner to gain more investment banking mandates out of China. Once again, such mandates threaten its research, purely because they mean it will have to produce research on more Chinese companies which it is attempting to canvass for business at the same time. However it's also a potentially lucrative revenue stream, which is not to be sniffed at in these times of tightening broking fees.

Looking back over the past 25 years, Slone and Bradley say they are most happy about the ability of the company to have created a business model in which honest and forthright research lies at the heart.

"For our clients, we have always run a non-conflicted business, always putting their interests first," says Slone. "I think we've managed to keep things as simple and transparent as possible and, going forward, we will continue in the same vein."

It won't be easy, but it would be unwise to bet against Asia's great broking survivor. **AM**

Brokers Poll 1990-2013

Overall Combined Research & Sales – Regional (Asia-Pacific ex-Australia/Japan)

Rank	Brokerage House	%
1	CLSA	12.56
2	J.P. Morgan	9.30
3	UBS	9.13
4	Bank of America Merrill Lynch	6.53
5	Morgan Stanley	5.74

Best Local Brokerage 1990-2013

Country	Brokerage House	%
Australia	Macquarie	18.99
China	SWS	13.65
Hong Kong	Sun Hung Kai	11.64
India	IDFC Securities	16.28
Indonesia	Danareksa	14.71
Japan	Nomura	23.38
Korea	KDB Daewoo	15.40
Malaysia	RHB-OSK	23.06
Pakistan	KASB/Bank of America Merrill Lynch	21.68
Philippines	Philippine Equity Partners	16.24
Singapore	DBS Vickers	23.42
Taiwan	Yuanta	16.75
Thailand	SCB Securities	15.19

Best of the Best Banks, 2002-2013

Best Domestic Bank	Best Domestic Equity House	Best Domestic Debt House
Commonwealth Bank of Australia (2002,2010,2012) **ANZ** (2005-2006, 2013)	**Macquarie** (2006-2013)	**Westpac Banking Corp** (2008-2010)
Industrial & Commercial Bank of China (2003-2005, 2011-2013)	**CICC** (2006, 2009-2012)	**Citic Securities** (2008, 2010, 2013)
HSBC (2002, 2004-2007, 2012-2013)	**Haitong International (formerly Tai Fook Securities)** (2002-2003, 2007-2008, 2010)	**HSBC** (2006-2013)
HDFC (2002, 2005, 2008-2013)	**Kotak Securities** (2003-2004, 2008-2011, 2013)	**Axis Bank** (2008-2011, 2013)
Bank Mandiri (2004, 2010-2013)	**Danareksa Securities** (2003-2004, 2006-2007)	**Mandiri Sekuritas** (2006, 2011-2013)
Mitsubishi UFG Financial Group (2002-2004, 2009, 2012-2013)	**Nomura** (2002, 2004-2013)	**Mizuho Financial Group** (2006-2007, 2009-2013)
Shinhan Bank (2004-2013)	**Daewoo Securities** (2006-2007, 2009), **Samsung Securities** (2008, 2010-2011)	**Woori Investment & Securities** (2008-2011)
Public Bank (2002-2004, 2007-2008)	**CIMB** (2002, 2005-2013)	**CIMB** (2002, 2006-2011)
Muslim Commercial Bank (2004-2006, 2008-2009, 2011)	**KASB Securities** (2006-2007, 2009-2013)	**JS Global Capital** (2007, 2012-2013)
Bank of the Philippine Islands (2002-2005, 2007-2009, 2012)	**Deutsche Regis** (2002-2005, 2011-2013)	**BDO Capital & Investment** (2006-2010)
DBS Bank (2002, 2005, 2007, 2012-2013)	**DBS** (2006-2013)	**DBS** (2006-2013)
Chinatrust Commercial Bank (2004-2008, 2010, 2012)	**Yuanta Securities** (2002, 2006, 2010-2013)	**Grand Cathay Securities** (2006-2008)
Siam Commercial Bank (2002-2004, 2006-2007, 2009) **Kasikornbank** (2005, 2008, 2010-2013)	**Phatra Securities** (2005, 2007-2009, 2012-2013)	**Kasikornbank** (2007, 2009, 2012)

Indonesia's financial evolution

From 1989 to 2014 Indonesia has grown by an almost unrecognisable degree. In 1989 its GDP was $100bn, today it's $878bn. The stock market has exploded, and many other parts of the financial markets have flourished. But the country has been tested by trying times such as the Asia financial crisis and global financial crisis, and to a lesser degree by discussion of the tapering of US quantitative easing last year. Asiamoney spoke with a distinguished set of government officials, bankers, brokers and corporates to gain their views on the key developments in the country's economy and financial sector, and the opportunities and obstacles for the coming decade.

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Moderator: Richard Morrow, editor, *Asiamoney*

Asiamoney* (AM): *Pak Luky, what have been some of the most prominent developments of the past 25 years from a government perspective?

Luky Alfirman, MoF: In the last two decades we have experienced two major economic crises with very different results. During the first crisis in 1998 we experienced minus 13% economic growth in one year, when before it was 7% on average.

In response we had to do a great deal of reform, not only in the economic area but also political and social areas. For example, the central bank, Bank Indonesia, became independent, and we started to adopt a floating exchange rate. In the fiscal area we enacted the state finance law and the treasury law. The law states that the threshold for the fiscal deficit is set at maximum of 3% of GDP (gross domestic product) and the debt ratio was limited to 60% of GDP. We learned a lot from the first crisis and did a lot to fix our economy.

The second crisis in 2008 and 2009 was very different, and we survived pretty well. We grew at 4.6% in 2009, much higher than our peer countries. One lesson we've learned is that the government cannot deal with a crisis alone and neither can the central bank. It needs coordination, and I think we did that quite well in 2008 and 2009. Then last year we experienced more financial