

Financial Markets World
Best Execution Conference
January 12, 2005

Morgan Lewis
C O U N S E L O R S A T L A W

Achieving Best Execution – A Practical Guide

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Achieving Best Execution

- Process and Paperwork
- Pre-Trade
- The Execution
- Post Trade
- Challenges

Process and Paperwork

- Focus on process – “Regular and rigorous” review
- Written Best X policy
 - Factors for selecting brokers
 - Criteria to measure these factors
 - Consideration of alternative markets
- Best X committee
 - Monitor brokers’ performance
 - Monitor more than price - like market impact and opportunity costs
 - Consider evaluation services
 - Document steps taken

Factors in Best Execution

- Execution capability
- Price improvement?
- Commission or equivalent rates
- Accessibility and responsiveness
- Need for speed
- Value of research provided
- Willingness to commit capital
- Assistance in finding liquidity
- Handling of block trades?
- Specialization in markets or securities manager is trading
- Electronic order access and trade reporting
- Anonymity
- Financial responsibility
- Low trade errors & willingness to correct their mistakes

Pre-Trade

- Evaluate desk structure
 - Sector/Style
 - Fund/Product
- Evaluate trader responsibilities
- Evaluate trading desk workflows to streamline
- Broker selection
 - Broker Votes & Trading Desk Independence
- Factors
 - Agency capabilities
 - Capital commitment / VWAP services
 - Electronic trading
 - ECNs and other ATs
 - Soft dollar research and market color
- Newly mandated procedures when executing through selling brokers
- Assessment of the market for the security

The Execution

- Aim – Absolute best price given portfolio manager’s objective
 - Portfolio manager’s objective is key to how traders should approach a trade
- How assess the prevailing market price?
 - Market data
 - Checking multiple dealers - but how many?
- Trade sequencing issues
 - Raises tough trading opportunity questions
 - Myriad trading arrangements complicate order placement
- Trade aggregation and allocation

Post-Trade

- Broker monitoring
 - Types of services used
 - Number of services used
- Broker Evaluation -- Usefulness of “Dash” Reports?

Challenges

- Regulatory obstacles
 - Regulatory limits on cross and agency-cross trades
 - Regulatory limits on principal trades
- Client requests to direct trades through specific brokers
 - Cross-subsidization issues
 - Sequencing issues and use of step outs
 - Disclosure issues
 - Due diligence issues
 - Shadow trading concerns
- Information leakage
- Blow outs and transition trades

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