



THE MONEY MANAGEMENT INSTITUTE

Legal/Regulatory Affairs Conference for General
Counsels & Chief Compliance
December 6, 2005

Best Execution, Trading and Investment Opportunity Issues

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

Best Execution, Trading and Investment Opportunity Issues

- Trade Aways
- Sequencing of Orders & Front Running
- Agency-Cross and Principal Trades
- Disclosure of Holdings
- Investment Opportunity Issues
- Implications of new Soft Dollar Interpretations

Trading Issues For Portfolio Managers

- Best Execution in the choice of brokers
- Trading conflicts
 - Firms managing wrap & non-wrap business are often forced to break up orders
 - Many firms rotate orders to ease sequencing issues
 - Does this place institutional orders at the mercy of wrap orders?
 - Problem exacerbated where large wrap orders take time
 - “Signaling” problems
 - Step outs ease the problem, but many sponsors unwilling to accommodate them

Trading Issues For Broker-dealer Sponsors

- Starts with same issues in ordinary brokerage
 - *Marc Geman* enforcement case
- Agency-Cross Transactions
- Principal Transactions
 - Morgan Lewis letter (4/97): Sponsor may trade as principal if not acting as adviser in a trade
 - Trade initiated by portfolio manager
 - Sponsor does not influence portfolio manager's trading
 - Concerns remain with ERISA accounts & MDA programs
- Discretionary Trades by Exchange Members
- Limit Order Protection
 - NASDR interpretation letter (7/97): Sponsor may trade ahead of unexecuted customer limit order directed to other broker if needed to adhere to principal trade limits
- Trade confirmation suppression
 - SIA letter (8/99)



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