



Regulation & its Effects on Our Business

MORGAN STANLEY INSTITUTIONAL EQUITY
U.S. Head Trader Forum | September 2004

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Themes From Last Year . . . the Story Continues

- Regulation by enforcement
- Shifting standards for business conduct and gauging risk
- Focus on conflicts

Soft Dollars

- UK Financial Services Authority
 - CP-176 proposal
 - Exclude market pricing & information services
 - Require managers to rebate cost of bundled services
 - PS 04/13
- U.S. Congressional Consideration
- Industry Proposals
 - ICI
 - Fidelity
- SEC & NASD 2004 Task Force & sweeps
 - Year end action?
- Selected issues
 - Step outs
 - Transaction cost

Market Structure Issues

- Reg NMS
- DirectPlus/Role of Specialist
- Trade Through Rule
- Role of Specialists
- Market Fragmentation

Approaches to Best Execution

- Broker Selection
 - Broker Votes & Trading Desk Independence
 - Newly mandated procedures when executing through selling brokers
 - Types of Brokers
 - Game theory
- Capital Markets Transactions
- Execution Monitoring
 - Number of Pricing Services Used
 - Number of Dealers Checked
- Broker Evaluation -- Usefulness of “Dash” Reports?

Challenges

- Broker Selection and Monitoring
 - Trading Desk Independence
 - Evaluation and Monitoring Tools
- Directed Brokerage
 - Cross-subsidization issues
 - Sequencing issues and use of step outs
 - Disclosure issues
 - Due diligence issues
 - Shadow trading concerns
- ERISA Trading Issues
 - Cross trades
 - Block trades



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