

Morgan Stanley is One of Few Firms to Pass Markets' Ultimate Stress Tests

During the unbelievable August 2007 volume spikes in the market, one firm sustained uninterrupted electronic trading: Morgan Stanley. And during last January's high-volume, high-volatility conditions, Morgan Stanley delivered uninterrupted electronic trading, one of only a couple firms that could legitimately make the claim.

How has Morgan Stanley withstood the harshest of market conditions while the competition has succumbed to these real-life stress tests? A combination of outstanding technology, execution expertise, and market expertise, says Bill Neuberger, managing director and co-head of Morgan Stanley Electronic Trading (MSET).

He explains how Morgan Stanley's technology infrastructure, which is fronted by execution-management system (EMS) Passport and backed by Morgan Stanley's execution consulting services, maintains nearly 100-percent uptime while delivering a plethora of services and benefits to traders.

How does Morgan Stanley achieve such impressive system reliability?

Technology and trading blend together and it's critical to get them both right. Our platform is fast and reliable — even during volatile markets — because of our commitment to technology and because of our technical and trading expertise.

Electronic trading is all about the details. Recent stressful situations have exposed problems with other firms' software, with their architecture, or with their capacity. That has driven new clients to Morgan Stanley.

We do extensive work to make sure the uptime of our platform is near 100 percent because without speed and stability, you don't have anything.

How does your EMS fit into the picture?

Passport is an EMS that gets our clients to the market however they want with flexible tools and high-level service. For us, a discussion about EMS quickly morphs into the bigger technology picture because Passport really is a front-end application with an entire infrastructure behind it.

That same infrastructure, through MSET, provides many ways for clients to trade through us. Passport's synergies with our prime brokerage offering gives our clients a very good workflow experience. Through all avenues, we deliver excellent customer service and keen understanding of market structure, liquidity and trading tools.

As part of our offering, that overall picture, our EMS is global, multi-asset, and trading oriented. Passport goes along with the trading mentality of being very fast, very stable, and very core to trading. For our EMS and our overall infrastructure, clients consistently give us high marks in all these areas.

Why did you decide against being a broker-neutral EMS?

What exactly does broker-neutral mean? Do you have to be open to everybody? There's a slippery slope there. A lot of people claiming to be broker-neutral don't have access to some important brokers, and that turns into frustration for clients.

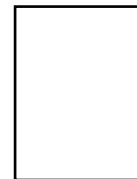
We are up-front about what we offer. Our global, multi-asset EMS is tightly coupled with our prime-brokerage application. For clients interested in multiple components, we connect to the truly broker-neutral systems. And from a broker perspective, we have significant reach into various alternative liquidity pools through our trading tools.

What are the latest destinations in your global reach?

Morgan Stanley was the first broker/dealer to offer direct market access (DMA) in India, executing the first trades on July 11. We did so after receiving formal approval to deliver DMA to Foreign Institutional Investor register firms for both equity and listed derivatives from the National Stock Exchange and for equity from the Bombay Stock Exchange. Passport was certified by both exchanges. This is a prime example of our focus on global multi-asset.

“Passport serves as a window into the Morgan Stanley franchise — cash, derivatives, structured products and financing.”

Bill Neuberger, Managing Director and Co-head of Morgan Stanley Electronic Trading (MSET)



What about other developments?

We are rolling out an upgraded Passport, which incorporates the latest technology, including greater flexibility and customization in terms of how traders use Passport.

Another primary focus is our expanding the reach of the markets both for cash and derivatives.

In keeping with our philosophy on the trading side and on the liquidity side, we feel transparency is very important. We've built into Passport liquidity maps that show our clients where they're executing. It's in real time so they can identify the relevant liquidity centers for particular orders.

What drove the need for liquidity maps?

We are skeptical about a lot of what's going on in dark pools, and we're judicious about which ones we'll connect to. We constantly monitor the execution and the reversion that happens from those executions and adjust which dark pools we're going to.

There has been quite a bit of information leakage happening under the banner of dark pools. We want clients to understand that we are conservative with dark pools. We've been entrusted with best execution for their orders, including to whom we're going to send an order. Liquidity maps help us deliver transparency. We can actually tell clients in which dark pool their trades were executed.

We're making sure we're sourcing quality dark liquidity. We're looking at the print in aggregate as part of the service. Did stocks revert? Did something funny happen before any of these prints went up? And we're minimizing the amount of interaction with speculators who are poking around dark pools to see what's going on with institutional order flow.

“Through all avenues, we deliver excellent customer service and keen understanding of market structure, liquidity and trading tools.”

You've highlighted the importance of speed.

How do you quantify it?

We measure different aspects of speed. On the front end, it's making sure the market data is getting through in a timely fashion. How quickly can an order get out the door? It happens in milliseconds.

Once an order hits our infrastructure, how long does an order actually take either to start trading if it's an algo order or get out to the market if it's a DMA order? It takes approximately three or four milliseconds to get the order through, validate it, do all the limit-checking, and get it trading.

We have recently redone our whole trading infrastructure to streamline the message side and the number of hops. We're down to the low-digit milliseconds in terms of that latency.

Additionally, Passport has a real-time link to our stock-loan group so there's no latency in terms of understanding if there's been a pre-locate for a short-sell or even if one has to be obtained on the fly. If the stock is there to be borrowed, locate numbers come back.

What advantages does Morgan Stanley Electronic Trading hold over the competition?

MSET delivers a global electronic trading offering that's reliable and fast. Plus we deliver value through our phenomenal coverage and execution consultancy services. Passport serves as a window into the Morgan Stanley franchise — cash, derivatives, structured products and financing.

We have been told repeatedly that our holistic approach is a key reason clients choose us as a partner. We're not just providing our clients with electronic trading services; we're providing them with Morgan Stanley.

Morgan Stanley

Morgan Stanley
1585 Broadway
New York, NY 10036
877-761-MSET (8653)

www.morganstanley.com/mset
mset-na@morganstanley.com