Trade Management Guidelines

CFA Institute
Centre for Financial Market Integrity

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Setting the global standard for investment professionals

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CFA INSTITUTE TRADE MANAGEMENT GUIDELINES

Recognizing the ambiguities and complexities surrounding the concept of Best Execution,[1] CFA Institute Trade Management Task Force has developed the CFA Institute Trade Management Guidelines (Guidelines) for investment management firms (Firms). The recommendations contained herein stem from the obligations Firms have to clients regarding the execution of their trades and provide Firms with a demonstrable framework from which to make consistently good trade-execution decisions over time. The Guidelines formalize processes, disclosures, and record-keeping suggestions that, together, form a systematic, repeatable, and demonstrable approach to seeking Best Execution.

It is important to note that the Guidelines are a compilation of recommended practices and not standards. CFA Institute encourages Firms worldwide to adopt as many of the recommendations as are appropriate to their particular circumstances. Although the Guidelines are specifically intended for Firms, they will afford all investment professionals and their clients a better understanding of the complexities of seeking Best Execution.

Firms have a fiduciary responsibility to act always in the best interests of their clients and to place the interests of their clients before their own. Firms should be conscious of this responsibility when developing (i.e., asset and security selection) and implementing (i.e., buying and selling of securities) a client's investment strategy. To help Firms meet their fiduciary responsibility when implementing the investing strategy of their clients, the Guidelines identify recommended industry practices to (1) ensure that clients receive the highest degree of care through appropriate and comprehensive controls and (2) enhance oversight of the trading function and monitoring procedures. The Guidelines are sufficiently flexible that they can easily be adapted to a Firm's unique characteristics and circumstances.

The circumstantial and judgmental aspects involved in seeking Best Execution on a trade-by-trade basis generally are not quantifiable. Therefore, it is not feasible to evaluate Best Execution on a trade-by-trade basis. Instead, the Guidelines focus on establishing processes, disclosures, and documentation, which together, form a systematic, repeatable, and demonstrable approach to seeking Best Execution in the aggregate.

Firms should be aware that the Guidelines do not supplant a Firm's responsibility to comply with applicable laws and regulations. Rather, the Guidelines identify comprehensive and complementary practices, many of which extend beyond what is required by law and regulation. Firms that follow the Guidelines must ensure that they comply with the relevant laws and regulations in the jurisdictions in which they operate.

U.S. Regulatory Background[2]

Investment professionals have a fiduciary duty to their clients to seek to achieve Best Execution for every trade. The U.S. Securities and Exchange Commission (U.S. SEC) has clearly stated that investment advisors have a duty to seek the most favorable execution terms reasonably available given

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[1] Refer to Appendix A of these Trade Management Guidelines for specific definitions of terminology used throughout this document.

[2] The Trade Management Guidelines refer primarily to U.S. legal and regulatory requirements addressing Best Execution. CFA Institute will evaluate global practices and other regulatory requirements at a later time.

the specific circumstances of each trade. In this regard, the U.S. SEC has recognized that qualitative factors are generally as important as quantitative factors. According to the U.S. SEC, in making its Best Execution determination, "a money manager should consider the full range and quality of a Broker's services in placing brokerage including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness to the money manager."[3]

In 1986, the U.S. SEC issued interpretations[4] that endeavored to provide some guidance to investment managers on how to fulfill these fiduciary obligations. In its interpretations, the U.S. SEC indicated that meeting one's Best Execution obligations does not necessarily mean paying the lowest possible commission fee. Rather, these obligations entail seeking the most favorable transaction terms for a customer that are reasonably available under the circumstances. The U.S. SEC has advised Firms to evaluate their trading execution performance periodically and systematically and to consider alternative methods to improve their execution process.

Globalization of the securities markets, advances in technology, the proliferation of electronic communications networks, extended trading hours, and decimalization have had a profound effect on trading practices and on how Firms might obtain Best Execution. There is no doubt that the explosion in trading volume has had an impact on market volatility and security prices. Both regulatory and marketplace changes have increased the need for Firms and their respective investment managers to be aware of how their trades are executed and to ensure that their fiduciary obligation to their clients is met.

Broker/dealers and market centers are subject to different best execution legal and regulatory requirements. Changes to U.S. SEC order-handling rules and quotation obligations[5] in 1996 led to changes in the regulation of exchanges and alternative trading systems and highlighted the fiduciary duty of broker/dealers to obtain best execution. In 2001, the U.S. SEC adopted two rules to improve (1) the public disclosure of order execution and routing practices and (2) market competition by publicizing the best possible prices for investor orders.[6] Rule 11Ac1-5 (Disclosure of Order Execution Information) requires market centers to make public monthly electronic reports showing uniform statistical measures of execution quality. Rule 11Ac1-6 (Disclosure of Order Routing Information) requires broker/dealers that route customer equity and options security orders to disclose in writing on a quarterly basis their order routing venues, among other items. Upon request by customers, broker/dealers also must disclose the routing of specific transactions. Therefore, Rules 11Ac1-5 and 11Ac1-6 may be sources, among many others, of additional information that Firms could potentially use to review and help assess the quality of their trades.

Definition of Best Execution

Determining the quality of trade executions entails the evaluation of subjective, objective, and complex qualitative and quantitative factors. In recent years, academics and practitioners have advanced the

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[3] Interpretive Release Concerning Scope of Section 28(e) of the Securities Exchange Act of 1934 and Related Matters, Exchange Act Release No. 23170 (Apr. 23, 1986). Release not available in electronic form.
[4] Id.
[5] SEC Final Rule: Order Execution Obligations, 17 CFR Part 240. Release No. 3235-AG66; File No. S7-30-95. Rule available at http://www.sec.gov/rules/final/37619a.txt.
[6] SEC Final Rule: Disclosure of Order Execution and Routing Practices, 17 CFR Part 240. Release No. 34-43590; File No. S7-16-00. Rule available at http://www.sec.gov/rules/final/34-43590.htm

level of understanding of the trading process in terms of how (1) it can be measured, (2) it interacts with security selection, and (3) technology can support trading. Their work reveals that markets are a complex tapestry of interwoven facilities and interacting participants. Further complicating the trading process is the high rate of technological and organizational change that causes investment professionals continuously to reevaluate their trading practices (such as trading technique, agent, pace, and venue).

It is within this changing environment that investment professionals must manage the trading process to fulfill their duty to clients. As trades go from the idea to the completion stage, the responsibility for securing Best Execution is shared by different parties: the advisor's traders operate within parameters established by portfolio managers; Brokers follow instructions specified by the advisor's traders; and exchanges or other markets execute the trades according to the instructions of Brokers.

When managing discretionary portfolios, Firms and the investment professionals they employ need to consider the desirability of buying or selling certain securities and how the costs of implementing these decisions will affect the overall benefit to clients. In addition, Firms need to (1) determine client trading requirements; (2) select appropriate trading techniques, venues, and agents; (3) control the pace of liquidity search to avoid excessive market impact; (4) protect the interests of clients and the proprietary information of decisions made by investment managers; and (5) monitor the results on a continual basis.

The concept of "Best Execution" is similar to that of "prudence" in intent and practice. Although prudence and Best Execution may be difficult to define or quantify, a general determination can be made as to whether they have been met. In making this determination, one would examine whether the assets were exposed to extraordinary hazards and whether the practice deviated from what other experts would commonly do. Prudence addresses the appropriateness of holding certain securities, while Best Execution addresses the appropriateness of the methods by which securities are acquired or disposed. Security selection seeks to add value to client portfolios by evaluating future prospects; Best Execution seeks to add value by reducing frictional trading costs. These two activities go hand in hand in achieving better investment performance and in meeting standards of prudent fiduciary behavior. Fortunately, trading is a repetitive, continuous process. Each trade communicates information regarding the underlying trading process. In the aggregate, this information can be used (1) to determine whether investment managers consistently are seeking Best Execution and (2) to improve the process.

The Guidelines define Best Execution for Firms as the trading process Firms apply that seeks to maximize the value of a client's portfolio within the client's stated investment objectives and constraints. This definition recognizes that Best Execution

- is intrinsically tied to portfolio-decision value and cannot be evaluated independently,
- is a prospective, statistical, and qualitative concept that cannot be known with certainty *ex ante*,
- has aspects that may be measured and analyzed over time on an *ex post* basis, even though such measurement on a trade-by-trade basis may not be meaningful in isolation, and
- is interwoven into complicated, repetitive, and continuing practices and relationships.

This definition of Best Execution is not intended to conflict with existing regulatory definitions but, rather, to provide additional explanation and guidance. In addition, the Guidelines do not prescribe how Firms should measure Best Execution. Rather, they focus on setting forth Firm-wide policies and procedures that seek to enhance a Firm's ability to maximize the value of a client's portfolio considering that client's investment objectives and constraints. Although this approach to seeking Best Execution is applicable to all types of transactions, CFA Institute recognizes that evaluating the quality of trades is more easily achieved for securities with reliable and readily available comparative data.

Overview

The Guidelines are divided into three areas: (1) Processes, (2) Disclosures, and (3) Record Keeping.

1. *Processes*
   Firms should establish written policies and procedures that have the ultimate goal of maximizing the asset value of client portfolios through Best Execution while taking into account each client's investment objectives and constraints. A Firm's policies and procedures should provide guidance to manage effectively the quality of trade decisions.

2. *Disclosures*
   Firms should disclose to current and prospective clients (1) their general information regarding trading techniques, venues, and agents and (2) any actual or potential trading-related conflicts of interest. This information provides clients with the necessary information to help them assess a Firm's ability to deliver Best Execution.

3. *Record Keeping*
   Firms should maintain proper documentation that supports (1) compliance with its policies and procedures and (2) the disclosures provided to clients. In addition to aiding in the determination of Best Execution, the records may support a Firm's Broker selection practices when examined by applicable regulatory organizations.

Guidelines

CFA Institute recommends that Firms adopt as many of the following recommended Guidelines as possible in a manner that fits the specific needs and circumstances of each Firm. CFA Institute also recommends, if a Firm's circumstances make it impossible to adopt any particular Guideline, that the Firm implement alternative arrangements that, to the fullest extent possible, seek to achieve the same goal as the Guideline.

1. *Processes*

1.A. **Establish trade management policies and procedures that seek to maximize the value of a client's portfolio within that client's investment objectives and constraints.** The policies and procedures should recognize a Firm's fiduciary duty to place the interests of clients above all other interests and to develop and implement trading decisions that best meet each client's investment objectives and constraints. The appropriateness of trading policies and procedures should be periodically evaluated and continuously monitored. Depending on its size, structure, and organizational complexity, a Firm should consider the following:

1.A.1. Establishment of a trade management oversight committee (TMOC) with responsibility for evaluating the Firm's trade management policies and procedures and for making recommendations, when appropriate, to senior management to improve a Firm's trading practices. When evaluating a Firm's (1) trading policies and procedures and (2) Broker-selection processes, the TMOC may consider relevant factors such as changes in market forces, availability of risk capital, market fragmentation, liquidity, and decimalization. To adequately fulfill its mandate, the TMOC should meet formally on a regular basis appropriate to the Firm's circumstances. Depending on its structure and complexity, a Firm could establish a TMOC that consists of one person or multiple persons or it might need to form more than one committee to operate effectively.

1.A.2. Implementation of a Firm-wide trade management policy (or policies) emphasizing a Firm's fiduciary responsibility to seek to maximize the value of a client's portfolio within that client's investment objectives and constraints. Firms should document the policy and make it available to clients upon request.[7]

1.A.3. Development of trade management procedures that adequately address the effective implementation of a Firm's trade management policy. More specifically, these procedures are intended to:

a. **Help a Firm identify and manage actual and potential conflicts of interest resulting from trading activities.** Conflicts should be reduced or avoided whenever possible, as they may impair a Firm's ability in seeking to achieve Best Execution. Firms should disclose clearly to clients all actual and potential conflicts resulting from trading activities. (Conflicts of interest are discussed in Section 2.B. of the Guidelines.)

b. **Assist in the regular review of the quality of services received from Brokers.** In striving to improve its trade management process, a Firm should take appropriate steps to ensure that the Brokers it frequently uses are capable of delivering Best Execution on an aggregate basis over time. A Broker's ability to achieve Best Execution easily may be adversely affected by changes, such as changes in market conditions and personnel. This review should consider the Broker characteristics and alternative trading options discussed in Sections 1.B.1. and 1.B.2. of the Guidelines.

1.A.4. Establishment of policies and procedures that address Client-Directed Brokerage Arrangements, such as those referenced in Appendix A of the CFA Institute Soft Dollar Standards[8] (included as Appendix B of this document), to the extent that these are applicable to the specific circumstances of each client.

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[7] If a Firm's policy includes information believed to be proprietary, the Firm should consider providing clients with a substitute version of the policy that does not include such information.

[8] The CFA Institute Soft Dollar Standards are available at http://www.cfainstitute.org/standards/ethics/soft_dollar/index.html.

1.A.5. Implementation of a Trade Evaluation Process. An effective Trade Evaluation Process provides important information that can help a Firm analyze trading costs and execution trends of trades with readily available comparative execution data. A Trade Evaluation Process should be structured to reflect a Firm's unique circumstances and client needs, should be consistently applied within the Firm, and should consider changing conditions in the overall market and, in particular, trading venues. Implementing a Trade Evaluation Process does not necessarily imply hiring a third-party vendor; a Firm may choose to track trading effectiveness internally. Ideally, the information should be evaluated in ways that facilitate comparisons:

a. from period to period,
b. against appropriate objectives and benchmarks (e.g., peer universes), and
c. by Broker, trading venue, and trading method.

1.A.6. Implementation of compliance procedures that make reasonable efforts to ensure that a Firm's employees adhere to the stated trade management policies and procedures. A Firm should promulgate the contents of its trading policy and procedures by distributing and teaching them to all applicable employees.

1.B. Establishment of clear Firm-wide guidelines on Broker selection and development of an approved Brokers list. To achieve this, a Firm could seek the input of its security analysts, portfolio managers, traders, and others who may have valuable information. In establishing Broker selection guidelines and an approved Brokers list, the following steps may be useful:

1.B.1. Identification of the Broker characteristics necessary to meet client trading needs and selection of Brokers according to these qualities.

The list of Broker traits provided here is illustrative in nature; a formal consideration of each factor may not be appropriate in all cases. The following are some of the factors a Firm should consider:

a. **a Broker's ability to minimize total trading costs while maintaining its financial health**; for example, a Firm should consider whether a Broker can

   i. maintain and commit adequate capital when necessary to complete trades,
   ii. respond during volatile market periods, and
   iii. minimize the number of incomplete trades;

b. **a Broker's level of trading expertise**; at a minimum, a Firm should consider, when applicable, whether a Broker can

   i. search for and obtain liquidity to minimize market impact and accommodate unusual market conditions,
   ii. complete trades,
   iii. execute unique trading strategies,
   iv. execute and settle difficult trades,
   v. maximize the opportunity for price improvement,
   vi. execute a trade quickly,
   vii. maintain the anonymity of an investment manager,

viii. exert the necessary effort to satisfy trading needs in a diligent and consistent manner,
ix. account for its trade errors and correct them in a satisfactory manner, and
x. engage in after-hours and cross-border trading;

c. **a Broker's infrastructure**; examples are a Broker's overall commitment to technology and its access to a trading system with the following characteristics:

i. order-entry systems,
ii. adequate lines of communication,
iii. timely order execution reports,
iv. an efficient and accurate clearance and settlement process, and
v. capacity to accommodate unusual trading volume;

d. **a Broker's ability to provide the following information or services (if applicable)**:

i. suggestions that improve the quality of trade executions,
ii. proprietary or third-party Research,
iii. access to Research analysts,
iv. access to Broker staff, and
v. access to a company's insiders;

e. **a Broker's ability to provide services to accommodate special transaction needs**; assuming a Firm is satisfied that a Broker can provide Best Execution to clients, a Firm may also consider a Broker's ability to

i. implement Step-Outs,
ii. offer custody services,
iii. execute and account for Client-Directed Brokerage Arrangements and Soft Dollar Arrangements,
iv. sponsor Wrap Programs,
v. participate in underwriting syndicates, and
vi. obtain initial public offering shares;

f. **a Broker's financial condition**; a Firm should make reasonable inquiries into a Broker's financial condition to prevent jeopardizing client funds.

1.B.2. **Exploration of realistic and achievable alternative trading options,** taking into consideration technology developments and market changes that may help a Firm achieve higher quality execution.

1.B.3. **Development of an "approved Brokers" list** that takes into consideration Broker characteristics and alternative trading options developed in Sections 1.B.1. and 1.B.2. of the Guidelines.

Firms should consider establishing procedures for using a Broker not on the approved Brokers list if the Firm determines that, under certain circumstances, using a nonapproved Broker may be in the client's best interest.

1.B.4. Analysis of brokerage commission trends and comparison of brokerage commission forecasts with actual brokerage commissions paid. A Firm should project annual trading activity and respective compensation for each Broker on the approved Brokers list and periodically compare the actual level of activity to the projected amount. Any significant variances between projected and actual amounts should be evaluated to determine, for example, whether there are opportunities to obtain more trading value, whether there have been exceptions to the Firm's trade management policies and procedures, or whether the projection should be revised.

1.C. Establishment of controls to monitor and evaluate Broker performance and execution quality. These controls should include means to evaluate the nature and quality of the execution services Brokers provide. A Firm should consider reviewing the following information:

1.C.1. Quarterly Broker trading reports. Brokers usually provide this information, which includes, but is not limited to, the following data:

a. commission summaries,
b. transaction reports, and
c. failed trades.

1.C.2. Feedback from employees having substantive contact with the Broker. A Firm should seek feedback from its traders, portfolio managers, analysts, and back office and client service personnel, who may have valuable information about less tangible factors relative to trade execution and quality of service.

1.C.3. Trade Evaluation Process information. A Firm should evaluate the Broker performance information generated by the Trade Evaluation Process. This post-trade evaluation should be made as frequently as is appropriate in light of a Firm's circumstances. This information will help a Firm identify ways to improve its trade execution on a continuous basis.

1.D. Ensure that all clients are treated fairly in the execution of orders and allocation of trades. The term "fairly" implies that Firms should take care not to discriminate against clients or place the interests of some clients over those of others.

2. *Disclosures*

Firms are encouraged to disclose their trade management practices as well as their actual and potential trading-related conflicts of interests to all current and prospective clients. Disclosing this information will assist clients in evaluating a Firm's ability to manage trades in a manner that consistently seeks to achieve Best Execution. All disclosures should be (1) clear, accurate, and current and (2) reported to existing clients on a regular basis. Firms should consider making the following disclosures to clients and prospects:

2.A. Broker selection practices, and any changes thereto. This disclosure should include a general description of any significant information considered in the trade management process, such as a list of factors considered in selecting Brokers (including alternative trading venues) and how a Firm handles trade allocations.

2.B. Actual and potential conflicts of interest. Firms should clearly disclose and explain the impact of actual and potential conflicts, which may include:

2.B.1. the use of an affiliated Broker on an agency or principal basis;

2.B.2. Research and/or other brokerage services obtained through Soft Dollar Arrangements;

2.B.3. Client-Directed Brokerage Arrangements to the extent that they may expose non-directed brokerage clients to less optimal trade executions and/or higher trading costs;

2.B.4. trade allocation and aggregation policies;

2.B.5. interest in, or material business relationships with, market makers or market centers;

2.B.6. Step-Outs;

2.B.7. the use of client brokerage to pay for client referrals or other arrangements that promote the Firm's business and the distribution of shares of investment companies the Firm manages;[9] and

2.B.8 the use of client brokerage to obtain goods or services that do not constitute Research or brokerage services.

3. *Record Keeping*

A Firm should maintain accurate and complete trading records. Documenting Best Execution processes will support a Firm's (1) efforts to achieve Best Execution for clients, (2) disclosures to clients, and (3) Broker selection practices. The following record-keeping recommendations also may assist a Firm in meeting its record-keeping regulatory requirements and demonstrating to regulators how it seeks to achieve Best Execution for its clients. It is recommended that Firms document

3.A. the process used to select Brokers and to oversee Broker performance on an aggregate trading basis, including

3.A.1. records that demonstrate how it considered relevant factors during the Broker selection process,

[9] Standard 1.C. of the CFA Institute Soft Dollar Standards prohibits allocating a client's brokerage based on the amount of client referrals an investment manager receives from a Broker.

3.A.2. the Broker characteristics and other factors believed necessary to deliver quality executions to clients, and

3.A.3. the post-trade analysis of execution quality and any steps taken to improve the process;

3.B. the review of the controls in place to prevent or mitigate any adverse effects that conflicts of interest may cause on an aggregate trading basis;

3.C. the materials prepared for and by the TMOC;

3.D. records that support negotiated Broker commissions; a Firm should consider

3.D.1. establishing an acceptable commission range for trades,

3.D.2. maintaining appropriate documentation when the commission paid exceeds the acceptable, preestablished range and describing the circumstances that caused the deviation,

3.D.3. retaining client agreements or other instructions authorizing practices that may interfere with obtaining the most favorable commission rate or net price, such as

a. paying up for brokerage and Research services (such as the advisory agreement),
b. paying a fixed commission rate to a Broker as compensation for custody or other services to a client, and
c. Client-Directed Brokerage Arrangements.

3.D.4. documenting the nature, benefit, and sources of soft dollar services obtained, including how the services were allocated between Research and non-Research uses.[10]

[10] Firms that comply with the CFA Institute Soft Dollar Standards must document the mixed-use of the services or products received in exchange for client brokerage. The mixed-use analysis should show the percentage of use allocated to research and nonresearch purposes. In the CFA Institute Soft Dollar Standards, "research" refers to services or products provided by a Broker, the primary use of which must directly assist the investment manager in its investment decision-making process and not in the management of the Firm.

Appendix A

DEFINITIONS

Best Execution for Firms refers to a trading process Firms apply that seeks to maximize the value of a client's portfolio given each client's stated investment objectives and constraints. This definition recognizes that Best Execution:

- is intrinsically tied to portfolio-decision value and cannot be evaluated independently;
- is a prospective, statistical, and qualitative concept that cannot be known with certainty *ex ante;*
- has aspects that may be measured and analyzed over time on an *ex post* basis, even though such measurement on a trade-by-trade basis may not be meaningful in isolation; and
- is interwoven into complicated, repetitive, and continuing practices and relationships.

Broker refers to a broker, dealer, or automated trading venue engaged in the business of effecting transactions for others. Brokers may provide services or products in addition to execution, such as the furnishing of advice relating to the purchasing and selling of securities, analysis and reports relating to relevant market information, and the performance of incidental functions, such as clearance, settlement, and custody.

Client-Directed Brokerage Arrangement refers to an arrangement whereby a client directs that trades for its account be executed through a specific Broker in exchange for which the client may receive benefits in addition to execution services. Commission recapture programs are examples of a Client-Directed Brokerage Arrangement.

Firm refers to an investment management firm or other entity that has discretion over client accounts. A Firm is any entity, or person, that serves in the capacity of asset manager to a client.

Research[11] refers to goods or services that provide lawful and appropriate assistance to an investment manager in the carrying out of his or her investment decision-making responsibilities.

Soft Dollar Arrangement[12] refers to an arrangement under which an investment manager obtains products or services other than execution of securities transactions from or through a Broker in exchange for the direction by the investment manager of client brokerage transactions to the Broker.

Step-Outs refer to arrangements whereby a Firm directs the executing Broker to allocate all or a portion of a trade to another Broker for clearance and settlement.[13] Step-Outs often are used to accommodate Client-Directed Brokerage Arrangements but are also used to obtain Research and nonbrokerage services.

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[11] See the CFA Institute Soft Dollar Standards.
[12] Id.
[13] Thomas Lemke and Gerald Lins, *Soft Dollars and Other Brokerage Arrangements* (Little Falls, NJ: Glasser LegalWorks, 2002 ed.).

Trade Evaluation Process refers to the process or system that allows a Firm to analyze and evaluate its trading effectiveness. A Firm may choose to outsource or develop internally its Trade Evaluation Process.

Wrap Program refers to a program or account under which any client is charged a specified fee or fees not based directly on transactions in a client's account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisors) and execution of client transactions.

Appendix B

RECOMMENDED PRACTICES FOR CLIENT-DIRECTED BROKERAGE ARRANGEMENTS[14]

In Client-Directed Brokerage Arrangements:

A. When directed by a Fiduciary, the Investment Manager should receive written assurance from the Fiduciary that the Client-Directed Brokerage Arrangement will solely benefit the Client's account.

B. The Investment Manager should attempt to structure Client-Directed Brokerage Arrangements

   1. so that they do not require the commitment of a certain portion of Brokerage to a single Broker and
   2. so that Commissions are negotiated and seeking to obtain Best Execution is still relevant.

C. The Investment Manager should request from its Client in any Client-Directed Brokerage Arrangement written instructions that

   1. restate the Investment Manager's continuing responsibility for seeking to obtain Best Execution,
   2. list the eligible Brokers,
   3. specify the approximate target percentage or dollar amount of transactions to be directed, and
   4. state procedures for monitoring the Arrangements.

D. The Investment Manager should regularly communicate with the Client for the purpose of jointly evaluating the Client-Directed Brokerage Arrangement, including

   1. the potential for achieving Best Execution,
   2. the list of Brokers and their trading skills,
   3. the target percentage of transactions to be directed to the selected Brokers, and
   4. the Investment Manager's trading style and liquidity needs.

[14] Terms in Appendix B are defined in the CFA Institute Soft Dollar Standards.