

STA

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Security Traders Association

TRADING ISSUES COMMITTEE

RECAP

March 4, 2009

Participants: Brett Mock and Tony Sanfilippo, Co-Chairmen; Joe Cangemi, David Cantrell, Tim Casey, John Daley, Sarah Devany, Peter Driscoll, Chris Erfort, Joanna Fields, John Giesea, Janice Hilsman, Steve Kay, Mike McCarthy, David Mortimer, Terry Mulry, Mitchel Nelson, Rory O'Kane, Jay Owen, Joe Roman, Jon Schneider, Ben Thislethwaite, Nancy Usiak and Lisa Utasi of the Committee; Steve Blumenthal and Joel Oswald of Williams & Jensen; Special Guest Ellen Greene of NASDAQ; and Gilda DiTullio of the Staff.

NASDAQ UPDATE ON VARIOUS INITIATIVES

Ellen Greene, Vice President of Transaction Services, NASDAQ, offered the following:

- BX Market
 - launched on January 16, 2009, it uses INET platform which is fastest and most efficient technology in the industry today
 - competitive pricing structure to appeal to a broad base of customers
 - on March 2, they introduced inverted pricing with a \$.0014 take rate and a \$.002 rebate for displayed and hidden orders
 - volume is growing and yesterday traded over 31 million shares
 - they offer a large range of actively traded securities during the day
 - attempting to encourage participation with their low take rate
- Sponsored Access
 - the revised sponsored access rule filing with the SEC expanded the definition "as the practice by a member firm, the 'sponsoring member', of providing access to NASDAQ to another firm or customer who is the 'sponsored participant' that includes the following terms:
 - direct market access
 - sponsored access
 - third-party sponsored access
 - new requirements under the proposed rule include:
 - sponsored access system must include controls
 - sponsored members must have systemic controls in place to ensure compliance
 - sponsoring members must ensure compliance personnel receive timely reports
 - following a review of all comment letters, NASDAQ will issue their own comment letter based on feedback

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- NASDAQ Clearing Corp
 - it will operate as an equities clearing agency to guarantee trades
 - clearing in real time should facilitate the process and lead to improved processing
 - it will be committed to the following:
 - proving the highest integrity and efficiency
 - control in managing risk
 - improved transparency
 - thus far there have been changes in customer service, innovation and price reductions of as much as 50%
 - they face 3 hurdles
 - building a product
 - integration with NSCC and inter-facing with DTCC
 - obtaining SEC approval

- Uptick Rule
 - they think more disclosure of short selling could help
 - SEC should spend more resources to study the efficacy of the tick test
 - the best new idea is a stock-by-stock circuit breaker test
 - they believe there is no correlation between short selling the current market crisis

- Proposed Transaction Tax
 - they share STA's position against the proposal
 - don't believe it will gain traction
 - will not publicly comment on it

- NASDAQ Options Market/PHLX
 - PHLX traded over 17% of U.S. Equity Options volume in Jan.
 - OMX continues to grow and traded 3.4% of the U.S. Equity Options volume in Feb.
 - by using innovative pricing on each market, they are working to grow market share
 - the PHLX complex order system is versatile in that it combines electronic trading with floor-based trading and there are no fees for participation
 - new focus in PHLX to bring NASDAQ's technology in line with all of its equities and options that will include:
 - enhancements to the opening process
 - routing with various strategies
 - improved order and quote handling
 - NOM offers incentive pricing to encourage customer order to access liquidity
 - NOM participants are also eligible to receive price improvement
 - new functionality on NOM reduces time for customer order to the market for trade to 1 second
 - earlier this year NASDAQ Commodities was developed—platform provides customers more liquidity and transparency

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- International Derivatives Clearing Group (IDCG) and Other Investments
 - IDCG provides customers an efficient and transparent venue to clear and settle interest rate swap (IRS future contracts and other fixed income derivatives contracts)
 - they will work to launch new IRS products that lessen systemic risk from unquantifiable and opaque OTC markets
 - they advocate reform of the OTC market which as contributed to the credit crisis
 - they want to create an innovative futures contract that mirrors the OTC IRS market
 - Agora-X enables institutional traders to efficiently negotiate commodities market OTC transactions in a liquid and transparent marketplace
 - currently agricultural swaps and options on ethanol
 - planning to roll out exempt commercial market to handle options 'look-alikes' in energy, metals and other non-agricultural commodities

During the ensuing discussion, a question regarding notification about erroneous trades was raised and Ms. Greene encouraged people to use the Reg Recon tool that contains all pertinent information. NASDAQ does its best to contact people and may consider something different going forward.

In response to a question about order type, Ms. Greene noted they have reduced time from 3 to 1 second to address a request for this type of functionality. Some firms prefer for their customers to trade against themselves as opposed to a cross order type.

As for SIFMA's letter urging the SEC and exchanges to meet, NASDAQ views this as an important step.

OPTIONS SUBCOMMITTEE UPDATE

David Mortimer and Rory O'Kane, subcommittee co-chairs offered the following:

- As a result of Rory's involvement in planning STAC Conference, the first meeting was held in Feb. with regulatory update and look forward into 2009 by Elizabeth King, Associate Director, SEC Division of Trading & Markets
 - focus was on short sales and how they were mishandled, pennies rollout on March 27, and intermarket linkage (Reg NMS for options)
 - discussed topics for forthcoming meetings, which include:
 - Option algo reps. from Credit Suisse and Bloomberg for March meeting
 - OTC vs. Listed Options
 - Clarification and discussion on OSI (Options Symbology Initiative)
 - Transaction Cost Analysis
 - Options Institute Conference
 - H.R. 1068 Bill (Transaction Tax)
 - the Trading Issues Committee was invited to submit suggestions for future topics

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H.R. 1068 BILL

STA President John Giese discussed the transaction tax bill noting STA's proactive approach opposed to the bill was appropriate and puts STA in a good position if it moves further. STA Chairman Peter Driscoll explained the primary purpose of the comment letter was to nip it in the bud by highlighting the fact that such legislation is not beneficial to investors. STA Vice Chairman Brett Mock directed the Committee to Traders Advocate on the STA web site that includes an opposition letter for use in contacting local representatives. Thus far, 400 members have participated in the action.

WASHINGTON D.C./REGULATION UPDATE

Joel Oswald of Williams & Jensen highlighted the following activities:

- Proposed transaction tax is still a political threat because of the Government's effort to identify revenue raisers to pay for programs such as TARP.
- Tremendous pressure on the SEC may result in some type of short sale rule, which may come out as a pilot program.
- Section 31 fee rate increased from \$5.60 to \$25.70 per million, which will continue until the end of fiscal year on September 30.
- Future of regulation and systemic risk regulator is a big focus, particularly with Congressman Barney Frank although there is no specific bill at this time.

During the ensuing discussion, there was a general consensus that the SEC will go along with an uptick rule because of political pressure.

Co-Chairman Mock encouraged the participants to stay in touch with their local Affiliates noting the grassroots organization is mobilized and they need to be involved.

ADJOURNMENT

The meeting was adjourned at 5:20 p.m.