Security Traders Association
SINCE 1934

Talking Points - March 10, 2011

WHO WE ARE – STA

STA was founded in 1934 so practitioners could discuss and help legislators with the formation of the Security and Exchange Acts of 1933 and 1934. These monumental works of regulation created the SEC and shaped our markets.

With 26 local affiliates throughout the major cities of North America, STA is the leading trade organization for individual professionals in the securities industry. We work to improve the ethics, business standards and working environment for our members. STA's Board of Governors is comprised of 16 democratically elected members, who are past affiliate presidents and industry specific leaders, as well as its President& CEO.

Our organization represents INDIVIDUALS from every business model – buy-side, sell-side, hedge funds, exchange traders and market makers- dealing in equity and derivative trading.

The STA DOES NOT: represent any single business model or industry group, we are NOT lobbyists and we have no agenda or special interest except to ensure the securities markets in the U.S. are the most efficient and liquid in the world.

The STA builds consensus through our 4,200 members from a bottom-up process with specific ideas vetted through our national committees on: Compliance; Trading Issues; and Institutional Trading. STA brings knowledge on the whole "life cycle" of an equity or derivative transaction by understanding the business model of who is transacting, the means by which they transact, the location where the transaction occurs and how the transaction is eventually cleared and settled. Thus, we are enabled to provide critical insight from all facets of process.

Topics for Discussion

We are here in to express our initial opinions on the recent release issued by, The CFTC-SEC Joint Advisory Committee on Emerging Regulatory Issues, ("The Committee") and funding for the SEC Budget in 2012. "The Committee" was assembled to review the investigations, analysis and reports by the staffs of the CFTC and SEC on the events of May 6, 2010. In their release "the Committee" made 14 recommendations to the SEC and CFTC that address what "the Committee" believes are "pervasive issues" that affect investors and today's financial markets.

1. We applaud the level of thought and detail however, STA feels several of the recommendations strike at the core infrastructure of our financial market system and will require significant resources in the debate on their effectiveness towards the benefit of investors. The level of interconnectedness which exists in our financial market place today is very complex. STA has consistently recommended that new regulations be fully analyzed, and where possible back tested, to avert negative consequences across our entire financial markets. Some of the recommendations made have the potential to be extremely disruptive and will require significant studies and debates.

2. "Due Process" of Rule Making, STA advocates that any rule proposal which may come about as a result of "The Committee's" recommendations be subject to the full "due process" of the SEC's formal rulemaking and comment procedures. Furthermore, STA recommends the decision making process incorporate empirical data to best determine the costs and benefits to market participants.

Issues which have broad STA support

1. "Trade At"/Depth of book protection - STA finds the issue of a "trade at" rule a threat to the continued evolution of markets and the protection of investors, especially when combined with the other proposed principle of depth of book protection. In addition, there would be incremental technology costs incurred by market participants to comply with this recommendation as messaging traffic would most likely increase dramatically.

2. Internalization/Preferencing arrangements – In its May 2008, "STA Perspective on US Market Structure", STA stated that internalization materialized as a natural reaction to the incremental costs associated with accessing liquidity on exchanges. We feel those costs still exist today and do not oppose a market participant's ability to internalize its order flow, so long as there are no negative effects on robust price discovery.

3. **Funding for SEC Budget.** STA continues to advocate that the SEC be adequately funded in order to perform its duties. Presently, the SEC receives its funding almost exclusively via Section 31a fees. While STA has no formal opinion on how the SEC should fund its budget in post Dodd Frank Act environment, at this time we recommend consideration for funding to be based on a fair allocation of the regulatory costs; with no one asset class or type of market participant bearing the burden of the entire budget. Furthermore, the SEC will not be overexposed to one asset class or type of investor.

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