



Talking Points – February 28, 2012

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WHO IS STA?

We are comprised of 23 local affiliates covering the US and Canada. The STA National Board of Governors is comprised of past presidents and industry specific leaders.

Our membership 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 advocate policies that improve the marketplace and foster investor trust, marketplace integrity, and capital formation.

STA brings knowledge on the whole "life cycle" of an equity or derivative transaction. Issues are vetted through our national committees on: Compliance; Trading Issues and Institutional Trading.

STA Talking Points

- Consolidated Audit Trail ("CAT")
Amendments to the "Reopening of American Capital Markets to Emerging Growth Companies Act of 2011" (H.R. 3606)
New York Stock Exchange LLC; Retail Liquidity Program, ("RLP")



Consolidated Audit Trail (“CAT”)

Purpose of Our Visit:

We are here to discuss recent statements made by the Commission in its 2013 Budget Proposal published February 2012, on procedures it will follow should a Consolidated Audit System rule be adopted. The Commission stated that "if this rule is adopted, in FY 2012 and FY 2013, the Commission will need to monitor the creation of and ultimately approve, a detailed SRO plan for the consolidated audit trail system and then monitor the development and implementation of the system by the SRO's and their members.

STA Comments

Based on the active role STA and Financial Information Forum, FIF are playing with both the Commission and industry participants on the implementation of the approved, "Large Trader Reporting" ("LTR") rule and our understanding of the rule making authority of SRO plans we offer the following comments.

1. We have concerns that by creating CAT under an SRO plan, even with oversight by the SEC, the level of willingness to consider the viewpoints of all market participants may not be adequate to insure this initiative is designed and implemented efficiently and within the estimates of any cost benefit analysis.
2. Industry participation from all firm types (exchanges, utilities, broker dealers and vendors) is vital as the NMS Plan comes up with detailed blueprint for CAT.
3. CAT will require significant operations and technology changes to accomplish its regulatory goals.
4. Implementation issues need to be at the forefront on the CAT discussion.
5. We request transparency on any cost benefit analysis be provided.
6. STA along with FIF, is meeting with Commissioners Walter and Aquilar, as well as members of Trading and Markets to discuss certain key messages learned in the ongoing implementation process of LTR. Including, extensive business analysis by the industry on the LTR from an implementation perspective was only conducted after the rule was approved. Resources at firms are constrained from conducting extensive business analysis on every broad proposal. This will almost certainly cause a delay in the April 30, 2012 compliance deadline.



Amendments to the “Reopening of American Capital Markets to Emerging Growth Companies Act of 2011” (H.R. 3606)

STA Comments

1. STA does not dispute the data which shows a declining trend in the number of US companies going public.
2. We do not feel this trend is attributed to any single regulatory or competitive event, nor is it isolated to one segment of our market structure.
3. For our financial markets to perform their role in capital formation, efficiencies in regulation and competition need to exist among and within all the participants involved in the capital formation process: **issuers, broker dealers, exchanges and investors.**
4. Any attempt to reform this process should cover the broad spectrum of participants.
5. Therefore, we are encouraged by the breadth of H.R. 3606, but want to caution members of the Committee that changes to market structure need to be thoughtful, comprehensive and not incremental.
6. “Tick Rule” amendment made by Rep. Schweikert.
STA supports this amendment, which requires the SEC to conduct a study on the impact of decimalization and examine "tick sizes" to support public companies because we feel it is narrow in focus and could incentivize market making in thinly traded EGCs.
7. "Exchange Trading" amendment offered (and then withdrawn) by Representative Renacci.
STA questions the effectiveness of the amendment and whether it will accomplish its intended goals. Institutional funds are a major source of liquidity for EGCs. These funds use non exchange platforms for trading securities in EGCs. Risk officers from these funds may find this amendment restrictive and consider a security that is not freely trading across all venues to be deemed illiquid and prohibit investments in the early stages of EGCs. Furthermore, this amendment introduces some of the major market structure issues exchanges, broker dealers and ATs are dealing with today and the competitive landscape they are in. In particular:
 - Trade At
 - Dark Pools
 - Internalization

These issues are complex and far reaching. STA feels the market is better served if these issues are considered through the full diligence rulemaking process of the SEC.



New York Stock Exchange LLC; Notice of Filing of Rule Change Proposing a One-Year Pilot Program Adding New Rule 107C to Establish a Retail Liquidity Program, (“RLP”) to Attract Additional Retail Order Flow to the Exchange for NYSE-listed Securities. (“Program”)

STA Comments:

1. We've received input from a broad range of market participants and their responses vary on the practicality of and demand for the Program.
2. The opinions vary from some firms who feel the Program has the potential to do harm to the investors it is looking to provide incremental value for, to other firms who see no value or harm to investors and finally some firms who do see a cost benefit and price improvement and transparency opportunity for retail investors.
3. STA is supportive of competition and the benefits it brings to investors. Therefore, we applaud the creative design of the Program and goals it is trying to achieve. However, we do have concerns with certain details of the Program and the effect it could have on the broader market
4. Concerns surrounding whether retail investors will receive price improvement need to be considered in any final decision.
5. More importantly, the Program introduces many of the market structure issues exchanges, broker dealers and ATs are dealing with today and the competitive landscape they operate in. In particular;
 - Sub penny trading.
 - Fair access.
 - Standards of best execution and order protection.
 - Direct data feeds verse Consolidated Quote Streams.
6. These issues are complex and far reaching. STA feels the market is better served if these issues are considered through the full diligence process of Commission rulemaking, rather than through an SRO rule proposal