

Do Or Die – 2009 Mission Critical Projects

SIFMA Technology Management Conference & Exhibit

June 24, 2009

New York, NY



► **Moderator**

Jordan & Jordan



Thomas J. Jordan
President and Chief Executive Officer
Jordan & Jordan

Advisory Chair
Financial Information Forum (FIF)

► **Panelists**

SUNGARD[®]

Susan Crozier
Product Manager
SunGard

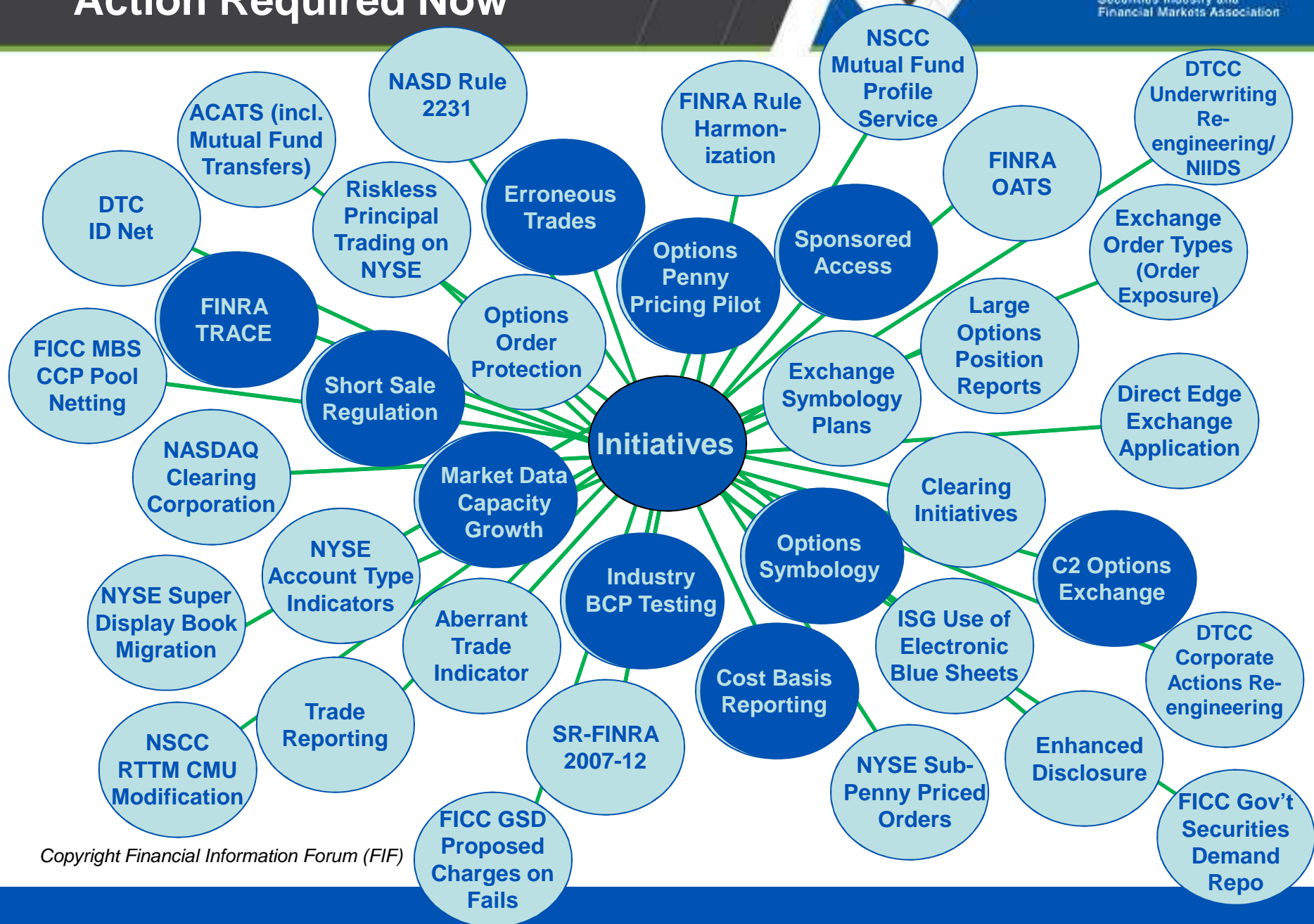
J.P.Morgan

Irene A. Halpin
Executive Director
J.P. Morgan



Tom Knorring
Vice President, Trading Operations
The Chicago Board Options Exchange

Must Do Projects: Action Required Now



Copyright Financial Information Forum (FIF)

Irene A. Halpin

Executive Director, J.P. Morgan

J.P.Morgan

NYSE ARCA Clearly Erroneous Rule

- ▶ <http://edocket.access.gpo.gov/2009/pdf/E9-10288.pdf>
- ▶ First proposal to reflect SRO agreement on uniform policies
- ▶ Proposed changes:
 - Review requests can only be sent via email
 - Other market centers have 30-60 minutes to request a ruling
 - > *Scenario: orders sent to a market center and rerouted to NYSE*
 - Numerical thresholds will define clearly erroneous transactions
 - > *Ex: If Reference Price = \$25, deviation has to be 10% or more*
 - SRO can also consider other factors: volume, volatility, news
 - SRO can only break the trade; no more modifications

NASDAQ Sponsored Access Rule

- ▶ <http://www.sec.gov/rules/sro/nasdaq/2009/34-59275.pdf>
- ▶ Will create model for all SRO sponsored access rules
- ▶ Sponsored Access defined as
 - direct market access: orders pass through member's systems
 - direct sponsored access: orders go via member-supplied system
 - third party sponsored access: orders go via third party system
- ▶ Members remain responsible for all trading activity of their sponsored participants; must implement:
 - Contractual Provisions: e.g., access to financial books/records
 - Financial Controls: e.g., prevention of order entry
 - Regulatory Controls: e.g., immediate receipt of trade reports

SEC Short Sale Proposals

- ▶ <http://www.sec.gov/rules/proposed/2009/34-59748.pdf>
- ▶ 2 Price Test Proposals and 3 Circuit Breaker Proposals
- ▶ Price Test Proposals:
 - Reinstating the prior uptick rule
 - Adopting a bid test to prevent execution at a down-bid price
- ▶ Circuit Breaker Proposals:
 - Circuit Breaker Trading Halt Rule
 - Circuit Breaker Uptick Rule
 - Circuit Breaker Bid Test Rule

Exceptions to Proposed Uptick Rules

- ▶ Broker-dealer exception
- ▶ Delay in delivery
- ▶ Odd lot transactions
- ▶ Domestic and international arbitrage
- ▶ Over-allotments and lay-off sales
- ▶ Riskless principal transactions
- ▶ VWAP transactions
- ▶ After-hours trading
- ▶ NO market-maker or ETF exceptions

Exceptions to Proposed Circuit Breaker Halt Rule

- ▶ Market maker exception
- ▶ Derivatives market maker exception
- ▶ Options and futures contract expiration exception
- ▶ Assignment to Call Writers exception
- ▶ Owned securities exception

200 questions included for comment

- ▶ Appropriate circuit breaker trigger levels
- ▶ Scope of covered securities
- ▶ Applicable trading hours
- ▶ How to enforce the rule
- ▶ Empirical analyses

Tom Knorring

Vice President, Trading Operations, The
Chicago Board of Options Exchange



Capacity for Growth

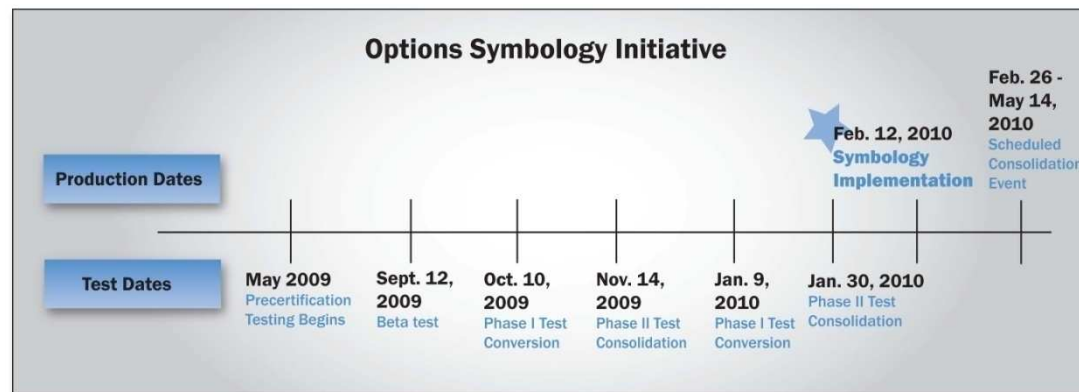
- ▶ OPRA build for 2.0M messages per second (mps) in July 2009
- ▶ CG build for 220,000 mps in July 2009
- ▶ UQDF build for 100,000 mps in July 2009
- ▶ CBOE's C2 will become Exchange Code "W" in the 4Q for Options
- ▶ Direct Edge's EDGA and EDGX will become Exchange Codes "J" and "K" in the 4Q for Stock

New Options Linkage Plan

- ▶ New start date in late 3Q 2009
- ▶ All Exchanges will accept and trade Intermarket Sweep Orders (ISO)
- ▶ Modeled after RegNMS for stock
- ▶ CBOE can “sweep” any better-priced exchange with ISOs and print customer balance at CBOE price
- ▶ “Front door” access via private linkage firms
- ▶ Firms may send ISOs as well

Options Symbology Initiative (OSI)

- ▶ Widespread match to underlying symbol
- ▶ Reduce dependency on exchange coordination
- ▶ Non-standard symbols become intuitive
- ▶ Frees up thousands of symbols
- ▶ Eliminate wrap symbols
- ▶ Eliminates LEAPS® rollover
- ▶ Reduced operational error



Susan Crozier

Product Manager, SunGard

SUNGARD[®]

MBS CCP Pool Netting initiative

- ▶ 3rd phase of the CCP initiative
- ▶ Allow MBSD participants to submit pool details to the Pool Netting system via Pool Instructs for bilateral comparison, netting and settlement versus FICC as central counterparty
- ▶ Subject to SEC approval
- ▶ Testing and certification required of members to participate
 - Average duration of testing: 2 months
- ▶ To be rolled out in two stages:
 - Pilot phase – testing ongoing; production release in August
 - Full production availability – targeted for September 2009

Enhancements to RTTM muni trade matching and unmatched CMU trades

- ▶ Allow use of correspondent data in RTTM muni trade match
- ▶ Allow modifies of unmatched CMU trades after submission date
- ▶ Objectives:
 - Enhance flexibility in matching RTTM CMU trades
 - Minimize late trades
 - Eliminate breaks due to trades matching on clearing number and not on correspondent data
- ▶ Requires 4-way match for muni trades
 - Submitter's clearing number
 - Contra's clearing number
 - Submitter's correspondent
 - Contra's correspondent

Enhancements to RTTM muni trade matching and unmatched CMU trades

- ▶ Fields of *unmatched* CMU trades may be modified, except:
 - Muni syndicate source and syndicate target trades
 - Bilateral, syndicate, syndicate target, QSR and QSR target
 - Modifies of CUSIP and marketplace are still not allowed
- ▶ Targeted for September 2009 rollout
 - Testing available since April

TRACE Reporting Changes

- ▶ Expand TRACE-eligibility to include the following:
 - Securities issued or guaranteed by an agency or GSE (except those issued by US Treasury)
 - Primary market transactions
- ▶ Increase transparency of wider array of debt securities including Fannies, Freddie's and FHLB notes to improve price, reduce bid-ask spreads, lower costs and determine valuation of bonds
- ▶ Almost double the number of bonds tracked in the current database
- ▶ Proposal includes securities that have no CUSIPs but meet TRACE-eligibility standard
 - DTC eligibility not a constraint
- ▶ Implementation Date: To be announced 60 days after SEC approval (no later than 180 days following publication of Regulatory Notice)
- ▶ Unregistered securities already TRACE-eligible as of June 15, 2009

Issues surrounding TRACE changes

- ▶ Need for a master list of TRACE-eligible issues
- ▶ Manual process for trade modifications
- ▶ Addressing securities without CUSIPs
- ▶ Addressing information from underwriters who are not registered with FINRA
- ▶ Agency debt already transparent
- ▶ Lack of clarity between primary and secondary market transactions within TRACE reporting rules
- ▶ Big bang or phased-in?
- ▶ Enormity and cost of efforts

Continued monitoring of fails for treasuries

- ▶ June 30, 2009 – payment or notice of claim rejection due
- ▶ Margining of settlement fails: protocols and implementation timelines by end of 2Q 2009
- ▶ Broader multilateral netting plans

DTCC's OFAC program requirements

- ▶ Certification required by March 31, 2010
- ▶ Fine of \$5000 for non-compliance

Mutual fund services enhancements

- ▶ Fund/SERV – Add new as-of reason codes
- ▶ ToRA – Add new share class field
- ▶ ACATS-Fund/SERV – add extra day for trade dates that are not settlement dates
- ▶ Effective date: October 5, 2009

Obligation warehouse

- ▶ Enhance processing of ex-clearing obligations
- ▶ Replace RECAPS
- ▶ Targeted for Q1 2010 implementation

FICC GSD expansion of membership to buy side

- ▶ Includes mutual funds, hedge funds and non-US entities
- ▶ Benefits to new and current GSD participants
- ▶ Target date of implementation: Q4 2009

Cost basis

- ▶ Tracking and reporting mandated with passage of Economic Stabilization Act in October 2008
- ▶ Multi-year initiative commencing January 1, 2011
- ▶ Industry comments to IRS notice published February 2009
- ▶ IRS response to comments expected soon
- ▶ *Enormous* tasks for brokers, dealers and other market participants
- ▶ TowerGroup report estimates upfront costs in building a cost basis in-house in excess of \$5 million and on-going costs from \$500K-\$750K

Discovery should begin now!

Additional Considerations

- ▶ Presidential Call for Regulatory “Revamp”
- ▶ New Options Exchanges
- ▶ OTC Derivatives Clearing
- ▶ IOIs / Order Protection