



LAST CALL FOR SCOTTSDALE ~ STA'S 76TH ANNUAL RISE RENEWED — THE FUTURE OF WALL STREET



John C. Giesea

We are only 10 weeks away from our 76th Annual Conference and it will be unique, with a program that offers breadth and depth. We have been very fortunate to obtain an outstanding group of speakers who will address a broad range of topics and have blended that with relevant “trading issues.” There will be five distinct panels dealing with noteworthy issues. For our buysiders, we have arranged a special session, as well as a panel and cocktail hour.

STA was at the Phoenician in 2003 and 2006 and we look forward to returning this year in what will likely be our “last” trip west for some time. Previous visits have resulted in rave reviews and we expect no less for this year!

2009 has presented many challenges to each of us, personally and professionally, which will make your attendance at this year’s conference even more valuable. Intense preparation is taking place to ensure a successful conference. We went in as underdogs with a resort venue and reduced T&E, and faced an uphill climb. However, we have risen to the challenge as demonstrated by our unbelievably strong sponsors that have renewed their commitment to the work of STA. Sincere thanks to our Conference Team, headed by John Daley and Bill Vance, who have performed miracles.

STA has a proud tradition of offering high quality conferences at prices nearly one half of what others charge – plus our members represent the true value of this organization! People continually comment

on how social our conferences are and how much they enjoy the balance of business content and networking opportunities. We have not forgotten the value of relationships despite living in today’s virtually electronic business world.

We are very grateful to our 30+ speakers and panelists, our registrants, sponsors, vendors and all those whose efforts created the opportunity to enjoy the Phoenician.

You need to register now! Please go to www.securitytraders.org > click here for information > then program for further information or > register. If you can’t find it call our office at 212-867-7002 and we will be glad to assist.

Washington Perspective

By: David Franasiak, Joel Oswald, Stephen Blumenthal and Eric Robins, Williams & Jensen

Congressional Efforts on Far-Reaching Financial and Compensation Regulation

Financial regulation reform and restructuring has been the primary focus of the House Financial Services Committee and Senate Banking Committee this year. No legislation, other than the “say on pay” and compensation bill discussed below, has been considered so far, but the Financial Services Committee plans to vote on various reform

bills after the August break and then package them into one bill to be considered by the full House. The Senate Banking Committee will not act as quickly on legislation, and it is unclear how the recent announcement that Senate Banking Committee Chairman Dodd has prostate cancer in its earliest stage may impact the legislative effort in the Senate.

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Areas of regulation reform legislation are expected to include establishing a Consumer Financial Product Agency, and addressing the regulation of systemic risk, over-the-counter (OTC) derivatives, credit rating agencies, hedge fund and private fund registration, additional resolution authority, and prudential regulation reforms. The Obama Administration sent legislative language proposals to Congress for each of these areas except for OTC derivatives regulation, which is likely to be released soon. House Agriculture Committee Chairman Peterson (D-MN) and Financial Services Committee Chairman Barney Frank (D-MA) jointly issued principles for OTC derivatives legislation since their respective Committees have jurisdictional claims over this area.

Consumer protection legislation is a priority of the Obama Administration and the Chairmen of the House Financial Services and Senate Banking Committees, and Chairman Frank introduced the Consumer Financial Protection Agency Act (H.R. 3126, or the “CFPAA”) in early July. The legislation is worth

noting because it provides the new consumer agency with very broad authority to regulate the practices of “covered persons” who engage directly or indirectly in a financial activity in connection with providing a consumer financial product or service. The Committee will modify the bill and may narrow the scope to some degree, but the bill as introduced appears to subject the CFPAA regulation to sales practices of individuals employed as registered representatives of broker-dealers, associated persons of investment advisers, unregistered investment advisers and others.

Another legislative effort of note is the “Corporate and Financial Institution Compensation Fairness Act” (H.R. 3269), introduced by Chairman Frank. In addition to provisions that require an advisory shareholder vote on executive compensation and impose independence standards on compensation committee members, the bill applies two provisions only to “covered financial institutions” (banks, credit unions, investment advisers, and other financial institutions as determined by the regulators). First, the bill requires disclosure of incentive-based pay arrangements to financial regulators. Second, it requires regulators to prescribe rules to ban certain incentive-based pay arrangements of covered financial institutions.

The House passed H.R. 3269 on July 31, but the Senate Banking Committee has not considered compensation or corporate governance legislation. However, several Senators have introduced various versions of such legislation. Legislation such as H.R. 3269 is likely to face opposition from most Senate Republicans, but the populist nature

of corporate governance and compensation “fairness” issues and other factors presents the possibility that some form of corporate governance and/or compensation legislation may be passed in this Congress, particularly if President Obama weighs in and if the provisions are included in broader legislation that Republicans can support.

Senator Schumer Letter on Flash Orders Sets Off Debate on a Range of Issues

A July 24, 2009 letter from Senator Charles Schumer (D-NY) to Securities and Exchange Commission (SEC) Chairman Mary Schapiro expressing opposition to flash orders set off a firestorm of commentary raising a range of other issues such as dark pools, high frequency trading, program trading, collocation of servers at exchanges, and even systemic risk.

The New York Stock Exchange, along with Senator Schumer, argue that flash orders, such as those used by Direct Edge (Expedited Liquidity Program), BATS (Bolt) and NASDAQ (Flash order program), provide unfair access or preferential treatment to sophisticated market participants. In the July 24 letter, Senator Schumer indicated that if the SEC does not act, he would introduce legislation to ban the use of flash orders to ensure that markets are “fair and transparent for all market participants.” Senator Edward (“Ted”) Kaufman (D-DE), appointed to replace Senator Joseph Biden when he was elected Vice-President, has wasted no time getting involved in financial industry issues such as short sales and most

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FROM THE AFFILIATES

THE STAPAC ADVANTAGE

By: Linda Heuman, Affiliate President
Cleveland Security Traders Association



As I come to the end of my two-year term as President of the Cleveland Security Traders Association (the *other* CSTA), I look forward to continued interest and involvement at the local and national levels.

Probably my most exciting and rewarding involvement with the Security Traders Association (STA), has been my participation at the DC conferences. Hearing from State Representatives and Senators from all over the country on regulatory issues and bill proposals has been very exciting for me. I felt very fortunate to visit with Sherrod Brown's office (one of Ohio's Senators) this past May. Getting a small glimpse into the workings of his office was very interesting. Most rewarding was the opportunity to inform his staff member on the current short sale circuit-breaker proposal from the STA.

A group of five or six Affiliate members and STA Governors ended up joining me for the meeting. We all crowded into a small office along with Sherrod Brown's legislative correspondent. Initially, I felt a bit

intimidated by the task until I met him... he looked about 15 years old. However, he listened intently and took notes to share with the Senator as we discussed STA (i.e., number of members, how we came into existence 75 years ago, the various locations of the Affiliate groups, member firm names, etc.), the various relationships STA has on the Hill, and our concerns about due process and having the STA's voice heard.

Please don't miss out on your chance to make a difference and help make our voice heard!

After experiencing this, I realized the impact we can all have. The STA has its finger on the pulse of the markets and we have a wonderful opportunity on a grass-roots level to educate and inform our Senators and Representatives.

I implore you to get involved with your local STA Affiliate, and the political action initiative. Traveling to DC isn't necessary either, as it is

often easier to schedule a meeting at your Senator's or Representative's home office. It is a great way to be involved locally, and yet make a big impact in DC, and on the markets overall.

One Congresswoman at the conference stated that the constituent opinion is the most important factor influencing lawmaker's decisions.

As Winston Churchill so eloquently stated:

"If you will not fight for the right when you can easily win without bloodshed; if you will not fight when your victory is sure and not too costly; you may come to the moment when you will have to fight with all the odds against you and only a precarious chance of survival. There may even be a worse case. You may have to fight when there is no hope of victory, because it is better to perish than to live as slaves."

Please don't miss out on your chance to make a difference and help to make our voice heard!

FROM THE AFFILIATES

SFSTA BRINGS CHARITY HOME

By: John Lane, Affiliate President

San Francisco Security Traders Association



The SFSTA held its annual 'Closest-to-the-Pin' golf benefit at our conference at Pebble Beach. We have held the event for the past few years to benefit one of our own who was paralyzed in a body surfing accident. Tommy Yi is a much beloved member of the trading community and worked as a trader in San Francisco at the time of the accident. However, this year was a bit different than most others...

When the sun goes down, the staff of Pebble Beach outlines the 17th green for a 'Closest-to-the-Pin' tournament. Emceeing is done to

encourage and entertain any and all of the generous participants. Chances are sold and many swings are taken with some balls finding their way into the Pacific. Normally, the contest is a 50/50 with half of the proceeds going to the winner and the other half directly to the Yi's to help with the battle Tommy faces. In what has now become tradition, every year the winner has graciously donated the entire proceeds to the Yi family. The evening is a highlight of the night with the staff of Pebble Beach and the emcees moving things along in an entertaining and efficient manner.

This year, we had Tommy Yi in attendance with his family. He greeted people throughout the day and was an inspiration for so many people not only on Friday, but throughout the weekend. In a touching moment, his wife explained that Sunday was the first time he has slept peacefully through the night since his accident years ago. The experience was special for so many people. We'll continue to host the 'Closest-to-the-Pin' contest and we look forward to hosting the Yi family for as long as they will be our guests at the conference.



“Deep summer is when laziness finds respectability.”

Sam Keen

**ENJOY THESE LAZY, HAZY, CRAZY
DAYS OF SUMMER!**

STA's Institutional Committee at Work

By: Jennifer Setzenfand, STA Governor and Co-Chairman
Institutional Committee

Since American Heritage defines Institutional as: *Characteristic or suggestive of an institution, especially in being uniform, dull, or unimaginative*, I wonder if we should change the name of our Committee! In reality, the STA Institutional Committee is made up of dynamic buysiders. We have traditional asset managers, long/short, hedge funds, you name it. You can define us as a Committee of people who pay commissions as opposed to those who collect them.

That being said, we view the market in a different light than our sellside counterparties. Often we are in agreement with our broker/dealers, as it is the goal of all of us to encourage fair and orderly markets. Sometimes we disagree, since we are in the unique position of having a fiduciary responsibility to our investors and shareholders.

As a Committee, we strive to find answers and solutions to the hard questions and problems that arise in our trading community. This year, our monthly updates from Williams and Jensen have been essential. Often our calls are filled with spirited debate and questions regarding Washington regulation and how it will affect our individual business models.

As members of this unique Committee, we often discuss issues in our chat room. Frequently, members of the Committee will find they need a quick answer or insight from their peers. Our chat room allows a

member to post a question or comment and have the other members respond with ideas and answers. Personally, I have found this a useful tool when looking for a second opinion on timely news headlines or SEC press releases.

The benefits and risks of using CSAs to pay for research is a concern to our group.

For our monthly calls, we survey the members and attack topics that we are looking for clarity on. Commission sharing agreements (CSAs) is one subject we discussed on our June call. This is a great example of something that is unique to members of the Institutional Committee. The benefits and risks of using CSAs to pay for research is a concern to our group. The decision to use CSAs is complicated. We invited an industry expert who had done extensive research on the results of using CSAs to share with us the pros and cons of these arrangements. Though both sides agree that CSAs are a necessary tool for maintaining best execution while simultaneously paying for research, the institutions have a host of other concerns when choosing who should hold their CSA contracts. Counterparty risk, system quality, and accounting requirements are all factors that are unique to our Committee members.

As a group we continue to be concerned with dark liquidity. At the beginning of the year, we attempted to tackle a dark liquidity map.



Since we found it impossible to create, we became increasingly aware of the need for transparency in order routing. As we look to the future, the need for transparency has become even more obvious to our members. Flash orders and high frequency trading has moved to the forefront of our concerns. Additionally, short sale regulation and reporting remains a still relevant and controversial topic.

Going forward we see a landscape where communication among our peers will be essential. The STA Institutional Committee strives to be “the place” to go when our members have questions and want to discuss important market news and changes.

We look forward to the STA 76th Annual Conference in Scottsdale this October and applaud the work of the Conference Committee for it’s commitment to providing informative sessions that are relevant to all members of our trading community.

Washington Perspective *continued*

(Continued from page 2)

recently, flash orders. In a statement on July 28, 2009 he also urged the SEC to prohibit the use of flash orders, suggesting that certain investors gain an unfair advantage over others and criticizing Wall Street for making “record trading profits by exploiting loopholes using high-speed computers”.

As was seen with the short sale issue, when main stream media reports about issues impacting equity market structure, it has the potential to turn a technical issue into a populist issue. For instance, commentary by Steven Pearlstein in the July 31, 2009, *Washington Post* asserts that high frequency trading is just a “high-tech form of speculation” and another Wall Street innovation that should be questioned regarding whether it may “allocate much of the rewards to Wall Street and the risks to everyone else.” This type of continued commentary and media attention is likely to expand the “flash order” debate into other inter-related matters.

Upcoming SEC Agenda Includes Short Sale Actions and Dark Pool Review

Earlier this month at a House Financial Services hearing, SEC Chairman [Mary L. Schapiro](#) indicated that the agenda of the SEC includes an examination of dark pools including whether regulatory actions are warranted to address “potential investor protection and market integrity concerns” that dark pools may pose.

Chairman Schapiro noted that the Commission and staff are reviewing the comment letters on price test

and circuit breaker short selling restrictions, and that they are reviewing other trading practices, such as securities lending in the context of addressing abusive short selling.

On July 27, the SEC [announced](#) several steps “to curtail short selling abuses” and “increase the transparency of short sales.” First, the Commission noted that it finalized and made permanent Rule 204T, an interim final temporary rule, to address naked short selling. The new rule, [Rule 204](#), becomes effective on July 31, and requires “broker-dealers to promptly purchase or borrow securities to deliver on a short sale.” The rule imposes penalties if a clearing firm does not purchase or borrow shares to close out a fail to deliver resulting from a short sale “by no later than the beginning of trading on the day after the fail first occurs (T+4).”

Second, the Commission announced initiatives to increase transparency of short sales. Rather than making permanent Temporary Rule 10a-3T, which requires certain market participants to disclose to the Commission short sale and short position information, the Commission will take action to increase the amount of short sale information available to the public. The Commission is working with self-regulatory organizations (SROs) to begin publishing on SRO websites in the next few weeks aggregate short selling volume in each equity security for that day and information regarding individual short sale transactions in all exchange listed equity securities on a one-month delayed basis. In addition, in the next few weeks the Commission will increase fails to deliver information, making it available twice per month and for all equity securities.

The Commission also announced that it would hold a roundtable on September 30 to discuss “securities lending, pre-borrowing, and possible additional short sale disclosures.”

In her testimony before the Financial Services Committee, Schapiro indicated that other agenda items of the SEC include: improving transparency and investor protections; strengthening shareholder rights; improving money market and mutual fund regulation; working on changes to the current custody requirements for investment advisers; and enhancing regulation of credit rating agencies. In addition, a representative from Chairman Schapiro’s Office staff recently suggested at an [Investor Advisory Committee](#) meeting convened by the SEC that the agency’s agenda could include a review of environmental disclosures and a review of the shareholder proposal process by October. Other potential agenda items include mutual fund pre-engagement rules. Separately, we also understand that the Commission is examining issues relating to sponsored access.

In commenting on regulatory reform, Schapiro noted the SEC and CFTC are working on a report to meet the Administration’s September 30 deadline for harmonization of the agencies’ rules. Regarding proposals to create a Consumer Financial Protection Agency (CFPA), Schapiro noted that there will be some overlap with the SEC on hybrid products, but she was adamant that enforcement powers should not be taken away from the SEC and given to the CFPA.

STA's 76th Annual Conference & Business Meeting

Rise Renewed - The Future of Wall Street

October 14-18, 2009 ~ The Phoenician ~ Scottsdale, AZ

Top Reasons Why Traders and Market Participants "Must Attend"

A single source for information and ideas - giving traders what you need to know and do now. A focus on the critical issues facing buy and sell side traders in the global financial marketplace from the regulatory, competitive, technological and market structure perspectives.

Specific insights on trading decision-making and behavior from thought leaders

Roch Parayre, Senior Partner, Decision Strategies International
Tom McClellan, Editor, The McClellan Market Report
Russell Fuller, President, Fuller & Thaler Asset Management

Guidance from Leading Industry Practitioners

Brad Hintz, Equity Research Analyst, Sanford C. Bernstein & Co., Inc.
Seth Merrin, President, Liquidnet Holdings, Inc.
Ralph Acampora, New York Institute of Finance

How Washington Developments will Impact Traders

SEC Chairman Mary Schapiro (invited)
SEC Commissioner Kathleen Casey (invited)
Daniel Clifton, Head of Policy Research, Strategas Research Partners, LLC

"State of the Trader" Panels

The Sell Side Shakeout: Regional and Boutique Firms
The Effect of Options and Derivatives on Equities
The Regulatory Landscape: Short Sales/Stock Loan/and a DC Update
What the Buy Side is Looking for From the Sell Side
Trading Issues: A Discussion of Trends in TCAs, Best Ex, Sponsored Access, High Frequency and New Order Types

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Dates to Remember:

Wisconsin Convention
August 6-8, 2008

Canadian Annual Conference
August 13-16, 2009

Seattle Summer Conference
August 20-23, 2009

Dallas Convention
September 10-13, 2009

Georgia Convention
September 24-25, 2009

STA Annual Conference
October 14-18, 2009

*New York International
Reception*
November 19, 2009

Denver Annual Convention
December 4-6, 2009