

Steve Luparello  
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Senior Executive Vice President  
Beth Dorfman – Introduction

Steve appreciated the opportunity to come here to update the audience on the consolidation of the NASD, and NYSE Member Regulation and enforcement

1) Goals of the transaction

- a. Historic moment – combination of NASD & NYSE
- b. Idea started w/ SIA
- c. Basic benefits
  - i. Enhance market competitiveness by streamlining regulation
  - ii. Elimination of conflicting obligations between NASD & NYSE
    - a. 2 different constituents
    - b. 2 different boards made if difficult
  - iii. An opportunity to ensure ongoing industry participation in the self regulatory process
    - a. The concern was that if we didn't act, the SEC would act for us which may not have been as inclusive or open, now we can create a new organization
  - iv. Cost savings – can eliminate redundant platforms
  - v. Combine the strength of the NYSE's FinOp Examination Program with the NASD's extensive experience with the various products away from equity area.
  - vi. Produce a structure that is conducive to investor protector.
    - NASD Bylaw Comment Rule Filing Period ended yesterday
      - i. NASD very appreciative of the supportive comment letters
      - ii. There were some negative comments that were a reiteration of the criticisms of the consolidation
        1. 1 firm – 1 vote is preferable
        2. view this an opportunity for larger firms to gain control
      - iii. SEC supportive and will respond quickly – late 2nd quarter
  - vii. Governance Structure
    - a. Replace the NASD governance structure with a tiered voting structure and appointment process for all the seats
      - i. 3 from industry – discrete and diverse
      - ii. 7 industry members directly elected based on firm size (3 seats for small firms)
  - viii. 2 Rule books into 1 Rule book
    - rule filing will incorporate by reference the NYSE Member conduct rules that they consider as such
    - Day after consolidation – there should be no new rule requirements for firms that were NASD only firms
    - There will be a full committee process and notice and comment for rules that go from 2 to 1
- d. Fees
  - 2007 No fee change
  - 2008 Fees will change
- e. Legal – corporate desk
- f. Payment of \$35,000 to each firm

Private litigation – questions the accuracy of the proxy

- NASD Response: stand by our proxy

New Name: ???

Same process of SIFMA – but realize there are no great names and sympathizes w/ SIFMA.

What and when to expect from the new synergies.

- In the short term: the “vener of a single organization”
  - Day 1 – attempting to look, act and appear as a single organization
  - Goal: to see us as a single organization
    - No multiple exam reports, multiple filings
    - immediately you will see on the disciplinary side.
- Open disciplinary docket remains
- Exam schedule
  - 2007 Exam Cycle – will continue on both sides
  - 2008 exam program-truly integrate the best technology/programming with the best people.
- Exam Program Structure: leverage the outstanding FinOp exam program that will be run by Grace Vogel’s Office of Risk and with the diverse program of Bob Errico’s Office of Sales Practice
- Rule Filings
  - On Day 1 – How and where you file will stay the same.
  - NYSE Rule Filings – If haven’t been acted on, analyze whether it will be a rule filing for the joint SRO

Single Rulebook –

- A lot of the work that has been done by the committee has been enormously helpful
- NASD made a commitment to adhere to an approach that can be sensitive to firm size and business mixes and to incorporate a principle v. proscriptive approach
- By this time next year – where we have real issues, they will either be addressed or on their way to being resolved.

Streamlining the exam program – next generation exam program

NYSE Smart work – NASD

Increase the technological capability of the program to do more offsite versus onsite

Focus: Reduce the firms’ need to support larger and larger infrastructure to support our regulation

Give tools other than enforcement-

- Templates
- Webcasts
- Conferences

Want to become much more the rule writer versus an enforcer, there are a variety of other things we are in a position in a position to do:

- investor education
- Task forces v. sweeps to investigate issues
- CRD and utility functions.

## QUESTIONS AND ANSWERS FROM THE AUDIENCE

### 1. Clarification (Pamela Root)

Q: If a rule filing is in place before confirmation of the merger and not acted on by the SEC, will it be incorporated as part of the single rule book?

A: If it deviates substantially, not the goal to incorporate

2. Dennis

Q: One of the advantages of being an NYSE member– based on the structure of the NYSE’s program, examiners tend to have a better understand the firm’s organization. Now that NASD is bifurcated, can you keep specialization amongst the combined examination staff?

A: One of the strengths of the NYSE exam program was their coordinator program – can that work in the SRO merger “centers of excellence” have been created – helps internally to train the more generalist examiners.

Jerry Baker

- Lori/John Walsh – GAO Report – we should be expecting increased intensity on their exams.
- SL: through the consolidation will be better able to articulate the benefits of the consolidated SRO program (risk based, comprehensive) and may be able to better express to the SEC that they should feel comfortable with an oversight function.