



Welcome to the first issue of "CAPIS Update." We designed this monthly newsletter to supply you with up-to-date regulatory information, market trends, research offerings, and overall industry news. We hope you find this publication informative and helpful.

Regulatory News

Capitol Hill intensifies its focus on financial sector **Congress and the SEC consider new rules and regulations**

As a result of the financial crisis, the government has inevitably begun careful scrutiny of the financial industry. Below are some topics that are currently in the regulatory forefront.

- **Systemic Regulator** - One of the hot topics in Congress right now is the creation of a systemic regulator. Many believe the financial crisis is a result of gaps in the regulatory process and that having a systemic regulator will help bring stability to the financial markets as well as unify various agencies. Exactly how the regulator would be structured is up for debate as the oversight of this regulator will be enormous. One possibility for the role is the Federal Reserve Board.
- **SEC Short Selling Proposal** - On April 10, 2009, the SEC proposed amendments to Regulation SHO, the set of rules governing short sales. Because of extreme market conditions and low investor confidence, the SEC is seeking comment on the proposals to restore restrictions on short selling. The SEC proposed two approaches: (1) a short sale price test on a market-wide and permanent basis, and (2) a circuit breaker rule. The proposal is open for comment until June 19, 2009. To view the SEC document in its entirety, please click [here](#).
- **Regulation of Hedge Funds** - This is another hot topic in Congress. The regulation of hedge funds has been presented in years past. Due to the current financial crisis and the Madoff scandal, it is once again under review. At a recent conference in Washington DC, SEC Chairman Mary Shapiro said the SEC needs the authority to require hedge funds to register with the Commission and would need additional rule-making authority to respond to crises should they emerge. Increased regulation of hedge funds could improve supervision and avoid systemic risk.
- **Regulation of OTC Derivatives** - The House is talking about regulating OTC derivatives and making them exchange-traded. Since these derivatives are traded over the counter, there is no clearing house in the middle to guarantee the deal. This means greater credit risk and no one tracking net positions on a real-time basis. Counterparty risk could be minimized if a single regulatory

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until is established to oversee OTC derivatives.

Market Buzz

New and emerging trends

What's hot in the industry

One thing you can count on in the financial world is that nothing stays the same for long. Here are a few trends we've seen so far for 2009.

- The trend to consolidate CCA/CSA brokers appears to have slowed down as consolidating to fewer brokers could present counterparty risk. At CAPIS, we believe that having a mix of brokers, including agency, bulge bracket, regional and specialty brokers, is the best option.
- Dark pools remain popular; there are, however, some concerns about the use of IOIs in dark pools. Some buy side participants, as well as some brokers, are choosing to opt out of dark pools that use IOIs.
- Our buy side clients have indicated several items of importance to them right now including high-touch trading, getting orders executed quickly and receiving exceptional customer service from their brokers.
- Order flow is increasingly going to agency brokerage firms. We believe this is due to some concerns regarding counterparty risk given the collapse of Bear Stearns and Lehman Brothers and the lack of capital commitment.
- The buy side would like more transparency with respect to where their orders are being executed.
- Many of our plan sponsor and investment company clients are asking for increased disclosure of commission use. Of particular importance is transparency regarding proprietary research.



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