

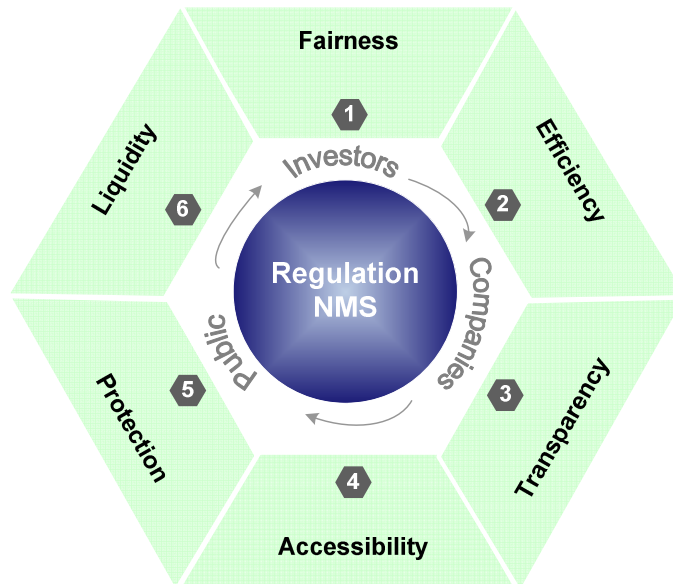
Financial Service Compliance – Regulation NMS

Overview

Regulation NMS is designed to modernize and strengthen the National Market System (NMS) regulatory structure that was first designed in the 1970's. This market system was established to take advantage of opportunities created by new data processing and communication technologies to preserve and strengthen the U.S. securities markets. It now comprises over 5000 listed companies traded in nine different market centers. Since its inception, technology advances have significantly impacted all aspects of the trading environment from individual investors to the complex market systems. As technology has advanced, gaps in the regulations have led to inefficiencies and inequities in the system. In addition, competition between the individual markets has increased. The SEC has continued to revise and refine the NMS rules to achieve the objectives of efficient, fair, competitive and orderly markets for public interest and investor protection.

To address the SEC's objectives Reg NMS is focused on four primary areas of market structure and regulation: 1) Order Protection Rule, 2) Access Rule, 3) Sub-Penny Rule, and 4) Market Data Rules. All of these proposed changes are intended to serve the interests of "investors", "listed companies", and the "public". The goal of this latest round of regulations by the SEC is to ensure that the framework is in place for technological uniformity across the National Market System. This creates a better environment for technological advancement and innovation.

ThruPoint has developed the Hexagon approach that categorizes the impact of these compliance directives into six key areas:



1. **Fairness:** Create a more equitable environment through the creation of policy and procedures to address “trading through”, and the equitable distribution of revenues. Providing criteria for access to quotes, limitations on access fees, and guidelines on locked or crossed quotes.
2. **Efficiency:** Ensure likelihood of best execution to provide the best deal for the investor by providing greater access to quotes, and improve efficiency by establishing a quote price minimum variation (MPV).
3. **Transparency:** Access to protected quotes and the displaying of several levels of quotes aims to create a level playing field for all investors.
4. **Accessibility:** Market centers are expected to provide non-discriminatory access to protected quotes. Policy and rules regarding the accessibility of quotes and the subsequent routing of inter-market orders are being created to allow for the adoption of new technologies across all markets in a timely fashion.
5. **Protection:** Protection of all immediate and accessible quotes is being created to avoid executing trades at prices inferior to protected quotes displayed at other trading centers.
6. **Liquidity:** Rules and guidelines on minimum price variation and fundamental access to markets and market data are driven by the need to support greater liquidity in the marketplace.

The requirement that Market Centers must maintain robust technology links with each other, and changes in access requirements are driving the need for technological advancement throughout the marketplace. In addition to changes in Order Management Systems, infrastructure enhancements will need to be implemented to handle the volume of quote data once Reg NMS is fully in place. Changes in the SEC’s approach to inter-market linkages will create a decentralized structure where these linkages will rely upon a greater emphasis on private line and network carriers instead of the traditional approach of a centralized market infrastructure.

Capabilities

We help our clients overcome the challenges introduced by new compliance regulations. New regulations generally impact many areas of an organization, these can be captured within ThruPoint’s three service stream areas:

- ❑ **Infrastructure** - the supporting technologies that encompass the underlying network transport, communications, storage, computing platforms and facilities.
- ❑ **Organization and Process** - the people, policies, procedures and tools that form the operational model to provision, administer, monitor, manage and maintain business operations.
- ❑ **Applications** - the software tools and programs with which end users interact with each other, with other applications and with partners to conduct and document business activities.

Benefits

A number of business benefits can be attributed to the ThruPoint Financial Services Compliance solution as follows:

- Help organizations understand the impact of Compliance regulations on their operational processes and infrastructure technologies
- Identification of areas of improvement and enhanced control to support current and future requirements
- Prioritize findings and develop both strategic and tactical recommendations with cost estimates

Approach

ThruPoint has a five-step consulting methodology designed to provide a rigorous framework for solving client's problems. We will engage with clients at any point of the lifecycle, and operate in a variety of roles from advisory through hands-on engineering services and global program management.

Our Financial Services Compliance solution is a strategic assessment exercise based on the ThruPoint Hexagon and includes the following activities:

- Qualify business drivers and goals
- Identify key stakeholders and conduct interviews and workshops
- Collect additional data via documentation review and questionnaires
- Analyze collected data and map to business objectives
- Develop list of prioritized and grouped findings
- Document high-level recommendations

Deliverables

The ultimate objective of ThruPoint's Financial Services Compliance solution encompasses identification and remediation of areas of exposure that an organization has to compliance requirements. Milestones within the solution are documented and referenced via the following deliverables:

- Compliance Infrastructure Assessment Report** – Description of findings and recommendations of compliance impacts on infrastructure technology and process



- ❑ **Technical Architecture Report** – Comprehensive specification of the elements and interfaces required to deliver and support the required compliance capabilities
- ❑ **Migration Plan** – Top-down strategy for technology change, recommended schedule for deployments and repeatable work plans for areas identified
- ❑ **Implementation Plan** – Detailed task inventory, supporting schedules and check lists for installation; testing plans and tools recommendations
- ❑ **Organization and Support Model** – Recommendations for realignment or enhancement of organizational and procedural components