

## Exchanges Overhaul Sponsored Access

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Nasdaq OMX Group and NYSE Euronext are working on a set of tough new sponsored access rules to ensure brokerages are keeping buy-side clients in check. Sponsored access allows the buy-side to trade on the exchange directly under a sponsoring broker's membership. The Securities and Exchange Commission has asked the exchanges to come up with a standard set of practices after noticing that some brokerages' practices were lagging (WSL, 6/13).

The exchanges plan to ask firms to meet a uniform set of risk management standards in the areas of short-selling, trading halts, proper use of order types and manipulative trading practices. Previously, exchanges asked brokerages only to make sure that sponsored traders weren't breaking exchange rules.

The changes mean that some brokerages will have to adopt or beef up pre-trade management systems. Additional pre-trade risk management systems could slow trading so much so that one exec joked traders would need to plan their trades a day in advance. "Pre-trade risk management systems introduce some minor latency into the equation," agreed Brian Hyndman, senior v.p. of transaction services at Nasdaq, but noted that it was necessary for brokerages to improve loose practices. BATS Exchange is evaluating its sponsored access agreement and will determine if any changes need to be made, a spokesman said.

Brokerages are more concerned about being able to measure and evaluate risk across all asset classes. "We should be taking risk seriously, but we have to realize that by definition we have no way of looking at everything," said Michael Rosen, senior v.p. of product development at UNX. He added that with traders working in various asset classes and markets, there is no uniform way to assess risk completely. **Ted Myerson**, president of **FTEN**, stressed that real-time risk management is necessary, but it requires constant maintenance of the risk system's technology and regulatory updates.

Others say that to get tough enough standards in place, regulators must step in themselves. "The SEC and FINRA are the only entities that can address this situation. The place to control broker-dealer behavior across the board is at the SEC," said John Jacobs, Lime Brokerage's director of operations. "The exchanges put filters in place and help with order validation, but there is no mandate on exactly what order validation includes." The SEC will have to sign off on any rules the exchanges adopt.

SEC officials declined comment and FINRA spokespeople didn't return calls.

**--Alexandra Zendrian**

