



2009

THE YEAR AHEAD

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Blythe Masters
– Chair, SIFMA
Board of Directors;
JPMorgan Chase & Co.

January 2009

Dear SIFMA Members:

In the face of unprecedented upheaval, the Securities Industry and Financial Markets Association is working with regulators, legislators and market participants around the world to represent your interests on efforts to stabilize the markets and pave the way for future economic growth and job creation. We continue to use our unique position at the center of the global financial markets to proactively provide leadership in addressing the enormous challenges posed by the financial crisis. I encourage you to spend time with this report to understand the ways in which, now more than ever, SIFMA is working on your behalf to shape the future of the financial markets.

As we start the New Year, we are already hard at work promoting the industry's agenda. It is imperative that we restore trust in our industry, by the public, regulators and policymakers alike. We must also continue to pursue efforts to bring more stability to the global markets, and to jumpstart stalled market sectors by boosting investor confidence. Finally, we must strive towards preserving and promoting open trade and investment.

All of our goals must be achieved in a new and rapidly changing regulatory environment. The debate on regulatory reform has begun in all corners of the globe. SIFMA is engaged at the highest levels in the US, EU, Asia and globally with the Group of Twenty Finance Ministers and Central Bank Governors (the G-20). We recognize the importance of developing regulations on a global scale, and strongly encourage coordination and cooperation between regional policy makers and regulators.

In addition to the broad regulatory reform debate, SIFMA is focused on several evolving market-specific initiatives, and stands ready to address new issues as they arise. Topics we are already covering range across issues such as securitization, CDS, capital requirements, risk management, accounting, rating agencies, short selling and executive compensation.

The financial markets, and their ability to align those who seek capital with those who provide capital, will play a key role in the economy over the coming year. While you and your firm are actively involved in the markets, be assured that SIFMA is advocating on your behalf. The benefits of SIFMA membership are significant, ranging from access to the latest information affecting your business and markets, to educational opportunities and the ability to affect real change by making your voice heard on important policy and market practice issues. We are dedicated to earning your membership - our members are our greatest resource and the key to our effectiveness.

Regards,



T. Timothy Ryan, Jr.
President & Chief Executive Officer
Securities Industry and Financial Markets Association



The perfect storm of global financial market meltdown, credit market freeze and economic contraction are meeting head-on in a period of US political transition and global regulatory overhaul. Housing sector weakness, frozen credit markets, falling commodity prices, volatile stock markets, aggressive central bank actions to support market liquidity, and the effect of several anticipated fiscal stimulus packages worldwide provide the backdrop for the economic outlook.

SIFMA's primary objectives regarding financial regulatory reform in 2009 are to 1) develop a position that will help shape the debate on reform issues as the US, the EU and other jurisdictions look to restructure their respective regulatory landscapes; 2) promote overarching principles to guide how firms are regulated, as well as evaluate the advantages and disadvantages of alternative regulatory approaches; and 3) encourage global regulators to take a collaborative and consistent approach to minimize regulatory distortions and conflicts.

SIFMA IS ADVOCATING FOR:

- In the US, the creation of a financial markets stability regulator. This body should have:
 - Access to information about financial institutions regardless of form or charter, and regardless of how they are regulated, to protect against systemic risk;
 - Authority to identify "systemically important" institutions;
 - Broad authority to act as the umbrella supervisor for those systemically important institutions, including setting consolidated capital requirements; and
 - Resolution powers over systemically important financial institutions and the ability to take prompt corrective action.
- More effective and efficient regulation and supervision:
 - Review duplicative regulation, such as Federal, State and SRO regulation in the US, and promote the standardization of regulatory regimes globally, for example via the International Organization of Securities Commissions (IOSCO).
 - Examine existing regulatory and supervisory architecture via:
 - In the US, consider merging the SEC and CFTC and, separately, the OTS into the OCC; consider adopting a federal insurance charter/regulator;
 - In the EU, consider strengthening the Lamfalussy Committees; and
 - Internationally, examine the roles of the World Bank, IMF, IFC and G-7.
- International cooperation and coordination for consistent regulation:
 - Consider creation of a global "College of Supervisors" to coordinate approaches, share information and enhance understanding; and
 - Any such global College of Supervisors should not have formal regulatory powers, but rather aim at sharing market information and input from market participants.

- Strong market infrastructures that reduce systemic risk and increase transparency:
 - Support development of clearing facilities for the CDS and derivatives markets;
 - Review extension of EU code of conduct on clearing and settlement to non-equity products; and
 - Improve transparency in the securitization and structured credit markets.
- Adequacy of regulatory resources.

The global financial industry is experiencing an intense paradigm shift both in terms of business models and regulatory structures. Officials are increasingly focused on introducing effective regulation, especially in currently unregulated market areas. The financial industry faces heightened scrutiny and increased calls for regulation, both in the US and Europe, at a time when it is seen by opinion leaders and the public as a main cause of market and economic issues. Policy makers have already begun to discuss changes in the both domestic and international regulatory structures, and increased regulation seems certain. While policy makers worldwide have announced their intentions to coordinate their responses to the crisis, it is already apparent that initiatives in one region are not necessarily consistent with similar initiatives in others.

While a new US Administration may have a different approach than that in the 2008 Department of Treasury's Blueprint, the Blueprint will be a point of reference for the regulatory reform debate. Under this approach there would be three regulatory bodies:

- One in charge of financial stability (systemic risk regulator);
- A second focused on safety and soundness of regulated entities; and
- A third whose mandate would be investor/consumer protection.

In the EU, the regulatory reform agenda will largely be determined by the findings of a report to be issued by the Committee of Wise Men. The committee was established by the European Commission and is chaired by Jacques de Larosiere, a former chairman of the IMF and former president of the European Bank for Reconstruction and Development (EBRD). It is expected that the committee's report will be issued in February 2009.

IN ADDITION TO THE BROAD REGULATORY REFORM DEBATE, SIFMA IS FOCUSED ON A NUMBER OF KEY ISSUES FOR 2009, INCLUDING:

- **Credit Derivatives:** SIFMA supports efforts to create global clearing facilities for Credit Default Swaps (CDS) in order to reduce operational and counterparty risk, and is also in favor of US regulation at the federal, as opposed to state, level. SIFMA, together with its Asset Management Group (AMG), ISDA and other associations, is addressing regulatory issues related to the credit derivatives market.
- **Hedge Funds:** Increased regulation and reporting may include capital adequacy requirements and enhanced transparency for systemically important hedge funds, private equity funds, and/or other currently unregulated liquidity providers that act as financing sources to broker-dealers.
- **Risk Management:** Regulatory imposition of enhanced risk management standards and increased power of risk management governance within firms.
- **Accounting Issues:** Off-balance sheet accounting and mark-to-market accounting standards for both US GAAP and IFRS.
- **Capital Requirements:** Focus on the effectiveness of Basel II, leverage ratios and the impact of the current EU CRD revision on securitization markets.
- **International Financial Architecture:** Implementation of the G20 Action Plan, as well as discussions about the future roles of the World Bank, the International Monetary Fund (IMF) and the Financial Stability Forum (FSF).
- **Government Ownership:** Implications of voting and non-voting government stakes in the financial sector globally.
- **Executive Compensation / Corporate Governance:** Competitive issues for institutions that are subject to government restrictions and those that are not.
- **Securitization Markets:** Improvement of transparency via implementation of the global initiatives jointly introduced by SIFMA, ASF, ESF and AuSF in December 2008; evaluation of post-trade reporting requirements for structured finance with as currently being reviewed by IOSCO and the Committee of European Securities Regulators (CESR); examination of accounting issues related to the market crisis, including market valuations and consolidation and de-recognition of special purpose vehicles (SPVs).
- **US Government-Sponsored Enterprises (GSEs):** Preservation of the integrity of US Agency mortgage-backed securities markets through government conservatorship; development of new business models for GSEs as they emerge from conservatorship and resolution.

- **Mortgage Origination:** In the US, creation of uniform federal mortgage standards; continued coordination with Sir James Crosby to help restart mortgage origination in the UK.
- **Credit Rating Agencies:** Potential new regulation in the EU and US.



Ellyn McColgan – SIFMA Board of Directors; Morgan Stanley; **Karsten Moller** – Executive Vice President, European Business Policies and Practices, SIFMA; **Arthur Grant** – Former Director, SIFMA Board of Directors; Cadaret Grant & Co., Inc.

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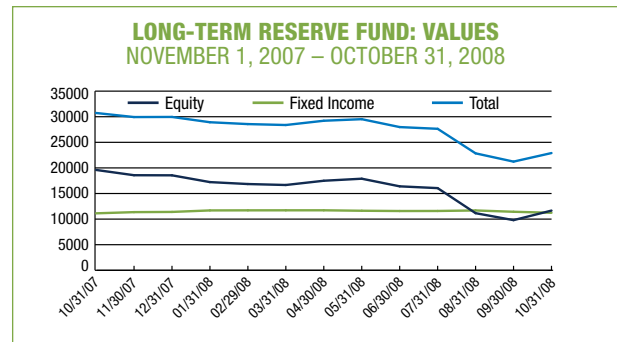
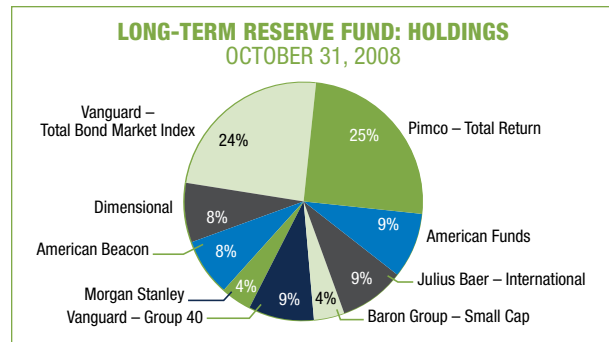
- **Short Sale Regulation:** Continued monitoring of SEC short sale rules in the US and worldwide orders and proposals, as well as development of appropriate responses.
- **Market Data:** Possible appeal of a recent SEC decision approving a NYSE Arca market data proposal; continued review and commenting on other SRO market data proposals.
- **Broker-Dealer Regulation and Market Regulation:** Continued harmonization of currently inconsistent or duplicative SEC and SRO regulations and reporting requirements, and elimination of obsolete or unnecessary regulations; expansion of fiduciary responsibility standards; discussion of the scope of regulation and access to the Fed discount window for non-bank holding company subsidiaries.
- **Securities Settlement and Payment Systems:** Modernization and consolidation.
- **Municipal Securities:** Expand the market for municipal bonds, especially infrastructure bonds, and bring added liquidity to the bond market.

Income Statement

(AMOUNTS IN \$000)	2008 ACTUAL (UNAUDITED)	2007 ACTUAL	AMOUNT	VARIANCE %
MEMBER DUES RELATED				
Revenue	77,155	81,649	(4,494)	(5.50)
Expense	86,890	84,930	1,961	2.31
Operating Income	(9,735)	(3,281)	(6,454)	196.71
CONFERENCES AND EVENTS				
Revenue	23,045	23,399	(354)	(1.51)
Expense	12,629	11,939	690	5.78
Operating Income	10,416	11,460	(1,044)	(9.11)
TOTAL				
Revenue	100,201	105,048	(4,848)	(4.61)
Expense	99,519	96,869	2,650	2.74
OPERATING INCOME	682	8,180	(7,498)	(91.66)

SIFMA's Long Term Reserve Fund

(AMOUNTS IN \$000)	2008 ACTUAL (UNAUDITED)	2007 ACTUAL	GAIN / (LOSS)
LONG TERM RESERVE FUND VALUES	22,902	30,732	(7,829)



THE 2008 FINANCIAL CRISIS TIMELINE: KEY EVENTS IN 2008 THROUGH THE COURSE OF

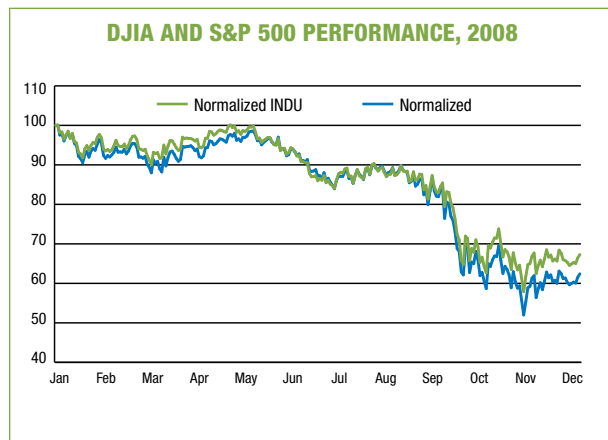
JANUARY 11	FEBRUARY 17	MARCH 16	JULY 11	JULY 13	JULY 15	JULY 23	AUGUST 31
Countrywide Financial is sold to Bank of America for \$4bn.	UK bank Northern Rock is nationalized after funding crisis.	Bear Stearns is sold to JPMorganChase with \$30bn in Federal Reserve support.	IndyMac collapses and is seized by US banking regulators. FDIC implements a systematic loan modification program for distressed IndyMac mortgage loans.	US Treasury and Federal Reserve effectively nationalize mortgage finance companies Fannie Mae and Freddie Mac in a bid to support the US housing market.	SEC Chairman Christopher Cox's submits testimony indicating the SEC's intention to issue an emergency order regulating short sales in 19 financial institutions.	Housing and Economic Recovery Act of 2008 is passed. <ul style="list-style-type: none"> Creates the HOPE For Homeowners (H4H) program, a \$300bn FHA re-financing program which requires mortgage loans to be written down to a max 90% LTV Merges OFHEO and FHFB into a single entity, the Federal Housing Finance Authority (FHFA) 	Dresdner Kleinwort is sold to Commerzbank AG.

Throughout the turbulence of 2008, several key market events drastically altered the landscape for financial institutions. Governments across the globe have responded to the market crisis in an attempt to stabilize markets, with actions that include emergency liquidity facilities, direct investments, loans and guarantees, new and revised regulations, fiscal stimulus packages and monetary policy easing.

UNITED STATES

In the United States, several government programs were introduced, the most noteworthy of which is perhaps the Emergency Economic Stabilization Act of 2008 (EESA), which included the Troubled Asset Relief Program (TARP) and Capital Purchase Program (CPP). Other programs announced throughout the year in an attempt to provide liquidity to frozen credit markets include:

- Term Auction Lending Facility (TALF)
- Term Securities Lending Facility (TSLF)
- Money Market Investor Funding Facility (MMIFF)
- Temporary Liquidity Guarantee Program (TLGP)
- Primary Dealer Credit Facility (PDCF)
- Commercial Paper Funding Facility (CPFF)



EUROPE

Although Europe does not have one unified regulatory body, several countries have been working in cooperation to address recent events. Banks have been nationalized by multiple governments, occasionally in joint buyouts. In October, leaders of several Eurozone countries held emergency meetings to determine a pan-European approach to fight the crisis. A specific action plan was published by the group and additional efforts have been undertaken to coordinate monetary policies.

ASIA

As the market contagion spread across the globe to Asia, countries began to work together on impending issues. In October, Japan, China, South Korea and the Association of Southeast Nations Secretariat (ASEAN) announced their intent to set up an \$80 billion buffer fund to ensure that a crisis in one country would not trigger a region-wide crisis. The nations also announced their intent to create a joint regulatory body to supervise the region's financial system, similar to the Financial Stability Forum. In November, China announced a sweeping \$586bn stimulus plan aimed at promoting infrastructure projects, the largest package ever undertaken by the Chinese government.

THE BIGGEST FINANCIAL INDUSTRY CRISIS SINCE THE GREAT DEPRESSION

SEPTEMBER 7	SEPTEMBER 14	SEPTEMBER 15	SEPTEMBER 16	SEPTEMBER 17	SEPTEMBER 19
<p>Fannie Mae (FNMA) and Freddie Mac (FHLMC) are placed into conservatorship under the Federal Housing Finance Agency (FHFA).</p> <ul style="list-style-type: none"> ■ US Treasury provides \$200bn in total support from FNMA and FHLMC stock purchases via the Treasury Senior Preferred Stock Purchase Agreement. ■ Announced the Government Sponsored Enterprise (GSE) Credit Facility (GSECF) for FNMA, FHLMC and Federal Home Loan Banks (FHL Banks). ■ Established the Treasury MBS Purchase Program, whereby Treasury announced their intent to purchase GSE mortgage-backed securities (MBS) in the open market. 	<p>Merrill Lynch is sold to Bank of America Corp.</p>	<p>Lehman Brothers files for Chapter 11 bankruptcy. At \$639bn, the filing is the largest in US history.</p>	<p>Reserve Primary Funds' money market fund "breaks the buck".</p> <p>Central banks pump billions of dollars into money markets in a bid to ease tensions and prevent global financial system from freezing.</p> <p>Barclays agrees to acquire parts of Lehman's North American assets for \$1.75bn.</p>	<p>Federal Reserve lends \$85bn to American International Group (AIG), taking 79.9% ownership.</p> <p>Lloyds TSB buys rival HBOS.</p>	<p>US Treasury Secretary Paulson unveils financial rescue plan proposal.</p> <p>US Treasury announces a temporary guaranty program for U.S. money market funds.</p> <p>SEC enforces short-sale ban.</p>

SIFMA is deeply committed to representing the interests of its members by addressing key market and regulatory developments, both in the US and globally, which affect our industry.

SIFMA GLOBAL ADVOCACY PROGRAM

In 2008, SIFMA filed 118 comment letters with 34 different US agencies, including the SEC, Congress and Treasury. Key letters covered topics such as 15a-6 Reform, “Soft” Dollar Rules, National Recognized Statistical Rating Organizations, Mutual Fund Summary Prospectuses, various SRO market data rule proposals and the SEC’s new SRO rule filing process.

Through filing legal briefs in appropriate court actions, SIFMA’s US amicus program continues to advocate and advance a wide-range of significant industry interests. In 2008, 14 amicus briefs were filed advocating on behalf of industry interests such as: commercial banks who engaged in legitimate subprime lending; the public interest in JPMorgan’s merger with Bear Stearns; a company’s right to repurchase commercial paper prior to maturity in the period preceding the company’s Chapter 11 bankruptcy filing; and Wall Street practices relating to commissions and incentive compensation under New York law.

In Europe, SIFMA filed over 40 comment letters and drafting amendment papers to proposed legislation with various EU and national agencies and treasuries, including the EU Commission, EU Parliament and EU Council. Key topics covered included Markets in Financial Instruments Directive (MIFID) implementation, clearing and settlement, Transparency Directive implementation, credit rating agencies, UK listing regime, Capital Requirements Directive revisions, liquidity risk management and short selling.

SHORT SALES

While supportive of the overall objectives of regulators world-wide to address rumor spreading and “naked short-selling” practices, SIFMA continues to advocate for measured and reasonable short sale regulation that does not negatively impact market liquidity or disrupt the market

in other ways. SIFMA played a critical role in ensuring the scope and application of the US, EU and other regulators’ interventions were clarified and fully understood by market participants.

SIFMA also strongly opposed the South Dakota Small Investors Protection Act, which was defeated in November. The measure’s broad sweep would have governed all transactions of a company, regardless of whether the transaction had any nexus to a South Dakotan investor, issuer, or registered representative. Any covered business would have been forced to either abandon all short selling activities, or abandon South Dakota registration. SIFMA engaged in several pre-vote messaging efforts, including public relations, grassroots activities and member outreach.

HOUSING, MBS AND SECURITIZED PRODUCTS

This December, ASF and SIFMA integrated their securitization-related activities, memberships, committees and staffs. Going forward, all securitization market advocacy and related functions will be managed by ASF.

Global Joint Initiative to Restore Confidence in the Securitization Markets. SIFMA, ASF, ESF and the Australian Securitisation Forum (AuSF) published market practice recommendations designed to restore confidence in securitization products and markets. The initiative received a President’s Working Group on Financial Markets (PWG) designation and broad recognition in Europe.

ASF and ESF Initiatives. On July 16, ASF announced the public launch of their Project on Residential Securitization Transparency and Reporting (Project RESTART) to restore investor confidence in mortgage and asset-backed securities. Project RESTART has sought to identify areas of improvement in the process of securitization and refashion, in a comprehensive and integrated format, the critical

THE 2008 FINANCIAL CRISIS TIMELINE CONTINUED

SEPTEMBER 21	SEPTEMBER 22	SEPTEMBER 25	SEPTEMBER 29	SEPTEMBER 30
Goldman Sachs and Morgan Stanley are transformed into bank holding companies.	Japan’s Nomura Holdings buys Lehman’s Asia operations for up to \$525 million. Later, Nomura buys Lehman’s Europe and Middle East operations. Mitsubishi UFJ Financial agrees to buy up to 20 percent of Morgan Stanley	Washington Mutual is placed in receivership by the Office of Thrift Supervision (OTS). Its banking assets are sold by the FDIC to JPMorganChase for \$1.9bn	The US Emergency Economic Stabilization Act (EESA) is defeated 228 - 205 in the United States House of Representatives. Six European governments collectively commit nearly \$150bn to rescue four institutions. ■ Glitnir is nationalized by Iceland in an \$865mn (75% stake) temporary takeover, ■ Bradford & Bingley’s £50bn of loans are nationalized by the U.K., with office branches and customer deposits being sold to Spain’s Banco Santander for \$1.1bn through its fully owned subsidiary, Abbey National ■ Fortis is partly nationalized by Belgian, Dutch, and Luxembourg governments, as they each buy 49% stakes in local Fortis subsidiaries, and ■ Germany injects €35bn in credit guarantees to Hypo Real Estate Group. The Dow drops 777 points (6.98%), the largest one-day point-drop in history.	Ireland becomes the first country to safeguard and fully guarantee all deposits and debts, senior and subordinated, at six separate financial institutions. Belgian, French, and Luxembourg governments inject €6.4 billion into Dexia.

aspects of securitization with market-based solutions and expectations. Additionally, in Europe, the ESF delivered ten initiatives to the European Commission to improve transparency in European securitization markets.

Credit Rating Agency Confidence. The investment community, SIFMA, ASF and ESF created a global task force that was designated by the PWG as the private sector group to provide it with industry recommendations on credit rating-related issues such as transparency, credit rating agency performance and surveillance. In late 2008, the group published “Recommendations of the Credit Rating Agency Task Force” and worked closely with the SEC on US credit rating agency reform. The group has been influential during debates in both Europe and the US.

EU Capital Requirements Directive (CRD). The CRD proposal will introduce changes to the securitization regulatory framework in the EU. The proposed changes aim to strengthen investor due diligence controls and include measures related to the alignment of originator and investor interests in the originate-to-distribute model. SIFMA and ESF are leading EU industry efforts to ensure that proposed changes will still allow the securitization markets to function properly.

Housing and Economic Recovery Act of 2008 (HERA). SIFMA supported the Housing and Economic Recovery Act of 2008, particularly tax-exempt bond provisions included in the bill. SIFMA worked to ensure member concerns were addressed as the bill moved forward, including ensuring the new program that would allow the Federal Housing Administration (FHA) to insure up to \$300 billion worth of refinanced mortgages was voluntary and any increases in conforming loan limits be made permanent. SIFMA also served as a market resource for lawmakers as legislation developed.

EESA AND TARP

When Treasury announced their intentions to introduce a stabilization program in the form of the EESA, SIFMA advocated strongly in support of the bill and the related TARP proposal.

In addition to communicating with members of the House and Senate, SIFMA and a coalition of other financial trade associations mobilized a grassroots effort in favor of the bill. Once passed, SIFMA engaged Treasury officials on various components of the TARP implementation plan by calling upon members to join a series of ongoing meetings and discussions directly with Treasury and soliciting feedback in the form of a survey from institutions eligible to participate in TARP.

In November, Secretary Paulson announced that TARP funds would be used solely for capital injections at this time, and not for purchases of troubled assets. SIFMA remains actively involved in discussions with Treasury regarding the use of TARP funds, as well as other stabilization programs.

MUNICIPAL AND AUCTION RATE SECURITIES

In response to the increased failures in the auction rate securities market, SIFMA undertook several steps which resulted in regulatory relief for municipal auction rate securities and auction rate preferred securities, as well as for individuals invested in these securities in individual retirement accounts and other qualified plans. SIFMA also advocated to expand the market for mortgage revenue bonds and ensure they are not subject to the Alternative Minimum Tax (AMT).

US SECURITIES SETTLEMENTS FAILS

Recent market events and an extreme “flight to quality” into US Treasury securities led to a significant rise in the level of settlement fails in the US Treasury market since the Lehman bankruptcy. SIFMA coordinated with the Treasury and Federal Reserve to publish “Fails Best Practices”, which enables dealers to take action if there is a significant increase in fails.

INVESTMENT ADVISOR ACT OF 1940 (IAA)

In March 2007, the US Court of Appeals overturned Rule 202, Fee-Based Brokerage Accounts. As a result, any broker-

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OCTOBER 1	OCTOBER 3	OCTOBER 6	OCTOBER 7	OCTOBER 8	OCTOBER 9
US Senate Passes HR1424, the Senate version of the financial rescue bill.	US House of Representatives passes the EESA. President Bush signs the bill into law. <ul style="list-style-type: none"> ■ Implements the \$700bn Troubled Asset Relief Program (TARP). The funds will be separated into three tranches of availability - \$250bn, \$100bn and \$350bn. ■ FDIC deposit guarantee is increased to \$250,000. 	Federal Reserve to pay interest on depository institutions' required and excess reserve balances. Bank of America announces a settlement with State Attorney Generals whereby the bank will implement an \$8.4bn mortgage loan modification program, providing relief to approximately 400,000 Countrywide clients.	Federal Reserve announces the Commercial Paper Funding Facility (CPFF). The Icelandic Financial Supervisory Authority seized Landsbanki.	Global central banks coordinate 50 bp rate cuts: the US Federal Reserve, European Central Bank (ECB), Bank of England (BOE), Bank of Canada, Swedish Riksbank and Swiss National Bank. Shortly after, China's central bank also cut rates. UK announces it will make £25bn available in Tier 1 Capital (Permanent Interest-Bearing Securities - PIBS) to Abbey, Barclays, HBOS, HSBC Bank plc, Lloyds TSB, Nationwide Building Society, Royal Bank of Scotland and Standard Chartered. An additional £25bn will later be made available to other institutions. Federal Reserve authorizes an additional \$37.8bn in aid to AIG.	The Icelandic Financial Supervisory Authority nationalizes Kaupthing bank hf.



Michael R. Bloomberg – 108th Mayor of New York City



Paul Begala – Counselor to President William J. Clinton and CNN Analyst, **Randy Snook** – Executive Vice President, US Business Policies and Practices, SIFMA



Karl Rove – Former Deputy Chief of Staff and Senior Advisor to President George W. Bush, 2000-2007 and Fox News Contributor
Noe Hinojosa – SIFMA Board of Directors; Estrada Hinojosa & Company, Inc.



Abby Joseph Cohen – President, Global Markets Institute; Senior Investment Strategist, Goldman Sachs & Co., **Blythe Masters** – Chair, SIFMA Board of Directors; JPMorgan Chase & Co.

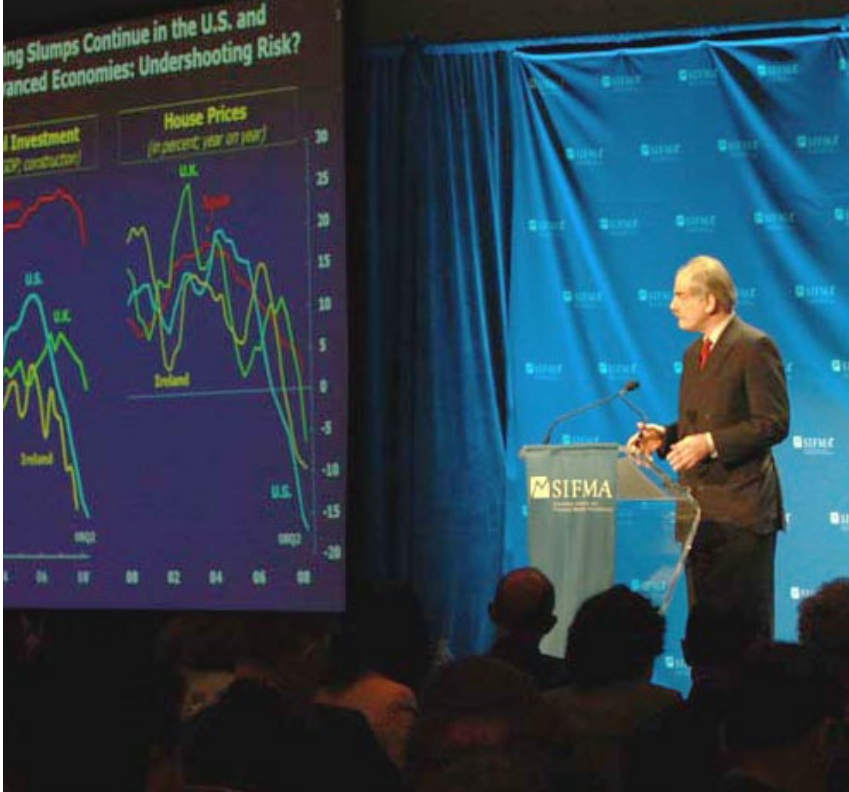


Timothy Ryan – President & CEO, SIFMA – on a panel discussion regarding the changing landscape of the financial services industry with members of the SIFMA Board of Directors: **Ronald Kruszewski** – Stifel, Nicolaus & Company, Inc.; **William Johnstone** – Davidson Companies; **Chet Helck** – Raymond James Financial, Inc.; **William Dwyer** – LPL Financial Services



Curt Bradbury – SIFMA Board of Directors; Stephens, Inc.
Harvey Pitt – Chief Executive Officer, Kalorama Partners, LLC

John Lipsky – First Deputy Managing Director, International Monetary Fund



dealer offering fee-based brokerage accounts now must register as a Registered Investment Adviser (RIA) and fall under the IAA. SIFMA has been collaborating with the SEC in response to the repeal of Rule 202. At the SEC's request, SIFMA drafted principal standards for a universal standard of care applicable to all investment services providers, and is now awaiting the release of SEC staff recommendations.

ENERGY SPECULATION

As a result of a rise in energy and commodity prices, lawmakers in Washington turned their attention to the energy and commodity futures markets last year. During the summer of 2008, over a dozen hearings were held and over thirty bills were introduced as Congress contemplated their oversight of the derivatives markets and examined what, if anything, should be done to reduce so-called excessive speculation.

In August, SIFMA and a number of other leading financial services trade associations representing the securities, derivatives, futures, commodities and mutual fund industries, formed the Smart Energy Policy Coalition to ensure lawmakers develop solutions to the energy crisis that address the root causes of high prices and do not impede the efficiency of global energy markets. SIFMA, its member firms, and other financial trade associations successfully lobbied against both the Commodity Markets Transparency and Accountability Act and the Stop Excessive Energy Speculation Act.

EU GOVERNMENT BOND TRADING

SIFMA and EPDA lead an initiative to remove the requirement for primary dealers in government bonds in Belgium, France, and the Netherlands to satisfy their issuer imposed quoting obligations on one particular trading platform. Giving the dealers choice of which platform to satisfy their quoting obligations has allowed for competition which should improve service and innovation, lower the cost of trading and reduce systemic risk as the market is not dependent on only one platform for electronic trading.

CLEARING AND SETTLEMENT

SIFMA and ESSF made significant steps towards the standardisation of corporate action processing in Europe; provided important user-input on the ECB Target 2 Securities initiative and on compliance with the EU Code of Conduct on clearing and settlement; and launched a work-stream to address post-trade processing issues in emerging markets.

UK INSOLVENCY REFORM

SIFMA has strongly supported the need for a formal restructuring procedure for distressed companies in the UK. Currently, corporate restructurings have no formal process and are privately negotiated out of court. Due to current market conditions, it is expected that there will be an increase in the number and complexity of insolvencies. SIFMA has joined with several other trade associations and industry groups to form a coalition in support of a reform effort that would adopt rules similar to that of a US Chapter 11 Bankruptcy proceeding, and bring transparency to a currently opaque process.

FOREIGN BANKS IN CHINA

During the fifth China-US Strategic Economic Dialogue, held in November, an agreement was reached to allow foreign-owned banks the same treatment as domestic Chinese-owned banks when trading fixed income securities, particularly corporate bonds, in the Chinese markets. ASIFMA advocated for rapid clarification and roll out of regulations that will permit this agreement to be implemented.

KOREAN MARKET DEVELOPMENTS

Covered Bond Markets. Policy makers in Korea have been proactively exploring the development of a legislative covered bond market. To assist them in their research, AISFMA provided the Korean Financial Services Commission with a detailed review of the covered bond regimes in seven European countries.

Repo Markets. ASIFMA has advocated for the development of a domestic Won repo market in Korea. Regulatory changes are expected to be announced in the first quarter of 2009.

THE 2008 FINANCIAL CRISIS TIMELINE CONTINUED

OCTOBER 10	OCTOBER 12	OCTOBER 13	OCTOBER 14	OCTOBER 21	OCTOBER 23
<p>Eurozone Summit held in Paris, an emergency meeting of leaders of eurozone countries.</p> <ul style="list-style-type: none"> Announced a declaration of coordination between the European Union and Euro-area governments, central banks and supervisors. Allows EU member states to make Tier 1 Capital available to financial institutions. 	<p>Federal Reserve approves the merger of Wells Fargo and Wachovia.</p>	<p>Federal Reserve expands currency swap lines with European nations and Japan to unlimited amounts.</p> <p>Banco Santander acquires Sovereign Bancorp.</p>	<p>US Treasury, Federal Reserve and FDIC announce actions to recapitalize US banks and insure debt, spending up to the entire first \$250bn tranche of the EESA on bank recapitalization.</p> <ul style="list-style-type: none"> Engaged in Preferred Equity / Warrant Purchases from the nine largest banks in the US, totaling \$125bn in expenditures. Banks are Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street. Smaller banks are eligible for the remaining \$125bn. FDIC is to guarantee senior unsecured debt for up to three years as well as all non-interest bearing transactional accounts in Temporary Liquidity Guarantee Program. 	<p>Federal Reserve creates the Money Market Investor Funding Facility (MMIFF).</p> <ul style="list-style-type: none"> Finances privately owned SPVs to support the commercial paper market by buying assets in order to issue asset-backed commercial paper 	<p>Japan, China, South Korea and ASEAN set up an \$80bn buffer fund and announce their intention to create a joint financial markets regulatory body, similar to the Financial Stability Forum.</p>

SIFMA is a 501(c)(6) organization that represents the shared interests of participants in the global financial markets. SIFMA members include international securities firms, US-registered broker-dealers and asset managers. Member participation is the very core of who we are and the key to our effectiveness.

The Association represents the industry on regulatory and legislative issues and initiatives, and also serves as a forum for outreach, training, education and community involvement.

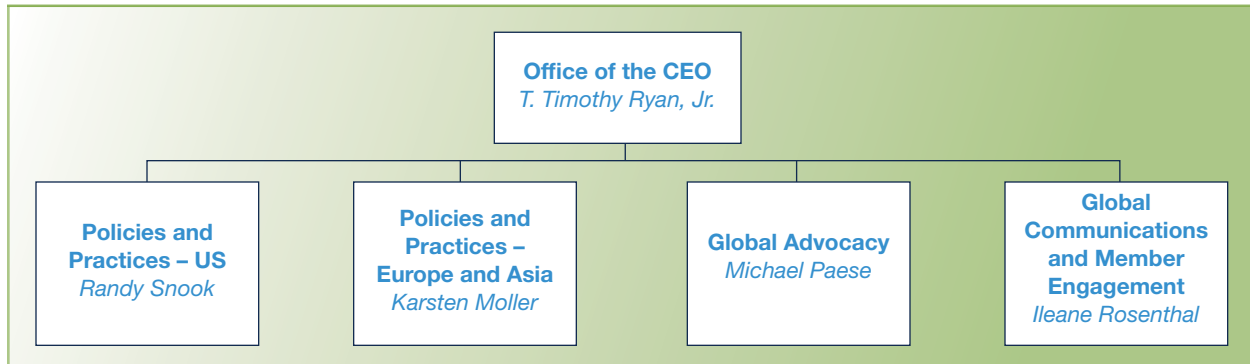
SIFMA's staff and the President & CEO report to SIFMA's Board of Directors, which manages the business and affairs of the Association. There are between 36 and 40 Directors at any given time whose three year terms are staggered equally. The Board sets the Association's priorities and determines positions on matters of public policy. To ensure a comprehensive representation of the industry, the governing by-laws dictate that the Board is geographically diverse, includes both small and large firms and consists of broker-dealers, asset managers and firms that support independent contractors. There are five subcommittees of the Board of Directors: the Executive Committee; Audit / Finance Committee; Compensation Committee; Nominating Committee; and Membership Committee.

SIFMA has three regional boards designed to make recommendations to the Board of Directors regarding the overall legal, regulatory, legislative and market practice priorities of their respective geographical regions. These boards are the US Regional Board (composed of the Capital Markets, Private Client and Asset Management Steering Committees), the European Regional Board and the Asian Regional Board.

SIFMA has approximately eighty standing committees, eight affiliate associations and ten professional divisions. In addition, task forces and subcommittees meet and evolve to address specific topical needs as they arise. Through these functions, thousands of industry participants gather to share their views and ensure their collective voice is heard by governments across the globe.

For more information, or to learn about more ways to become involved with the Association, please contact Doug Taggart at inquiry@sifma.org or call 212-313-1173.

SIFMA SENIOR MANAGEMENT



OCTOBER 24	OCTOBER 25	OCTOBER 29	NOVEMBER 4	NOVEMBER 5	NOVEMBER 6	NOVEMBER 10
PNC Financial acquires National City Bank for \$2.23/share. To finance the deal, PNC received \$7.7bn from the US Treasury as part of the TARP Capital Purchase Program.	The International Monetary Fund (IMF) outlines a \$2.1bn loan plan for Iceland.	Federal Reserve lowers the Fed Funds Target Rate to 1% - a 50bp cut. IMF introduces the Short-Term Liquidity Facility (SLF), whose purpose is to channel funds quickly to emerging markets that have sound policies and a proven track record, but that need assistance addressing temporary liquidity problems as a result of market conditions.	Barack Obama wins the US presidential election.	IMF approves a \$16.5bn loan plan for Ukraine.	IMF approves a \$15.7bn loan plan for Hungary. Bank of England cuts its benchmark interest rate by 150bp to 3.00%, while the ECB cuts its rate by 50bp to 3.25%.	US Treasury and Federal Reserve restructures AIG's aid package. <ul style="list-style-type: none"> Treasury used TARP funds to inject capital by means of a \$40bn purchase of preferred shares. The Federal Reserve reduced the original \$85bn bridge loan to \$60bn, cutting the interest rate and extending the borrowing period. The Fed also creates two financing facilities, the first for RMBS assets and the second for CDO assets and any related CDS contracts. China unveils a \$586bn stimulus plan, to be spent over the next two years on major infrastructure projects. Fannie Mae reports \$29bn loss for Q3 2008, largely due to a writedown of deferred tax assets.

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THE 2008 FINANCIAL CRISIS TIMELINE CONTINUED

NOVEMBER 12	NOVEMBER 14	NOVEMBER 19	NOVEMBER 20	NOVEMBER 23	NOVEMBER 24
Paulson announces TARP funds will not be used to purchase assets in the near future. Instead, funds will be focused on recapitalization of companies. A distressed mortgage asset purchase program will be reserved for possible future use.	FDIC publishes a loan modification proposal and requests TARP funding from Treasury. The proposal includes a government guaranteed loss share guarantee on re-defaults of modified mortgages. Freddie Mac reports \$25.3bn loss, pushing its net worth to -\$13.8bn. Treasury funds are requested for that same \$13.8bn of funds through the Preferred Stock Purchase Program. GSE loan modification program is announced by FHFA.	In response to small volumes, the FHA eases the terms of the Hope for Homeowners Loan Program. LTV allowances are increased from 90.0% to 96.5% for some loans.	Fannie Mae and Freddie Mac suspend foreclosures of occupied homes through January 9, 2009 so that it may better implement the streamlined loan modification framework.	Treasury, Federal Reserve and FDIC provide joint support to Citigroup. ■ Citigroup sold \$27bn of preferred stock in exchange for a further \$20bn in government support. ■ The joint government group agreed to provide insurance on \$306 billion of loans and securities backed by risky loans and securities. Citigroup will absorb the first \$29bn in losses, as well as 10% of any remaining losses. ■ Citigroup agreed to implement the same FDIC loan modification plan used in July by IndyMac.	President-Elect Obama nominates Tim Geithner for Treasury Secretary.

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*Management Committee

With so many urgent issues before policymakers, it is vital we inform them how their decisions could affect the voters and businesses in their home districts. Phone calls and e-mail from constituents were a critical component of getting TARP legislation passed last year and they will be vital again this year. To that end, SIFMA is strengthening its grassroots capabilities.

To learn how your firm can participate, please contact Scott DeFife or Joe Vaughan (contact info above).

NOVEMBER 25	DECEMBER 1	DECEMBER 11	DECEMBER 18	DECEMBER 19	DECEMBER 29
<p>US Treasury and Federal Reserve jointly announce the \$200bn Term ABS Liquidity Facility (TALF). Also announced is \$600bn of GSE debt purchases.</p> <ul style="list-style-type: none"> TALF was created to provide non-recourse financing to investors in ABS. Treasury is to contribute \$20bn of TARP funds for first loss protection. TALF will ABS collateralized by auto loans, student loans, credit card loans and loans guaranteed by the Small Business Administration (SBA). Federal Reserve will purchase \$100bn in GSE debt, and will hire asset managers to purchase an additional \$500bn in MBS. Mortgage rates drop 50bp on day of announcement. 	<p>The US National Bureau of Economic Research officially declared the US economy entered a recession in January, 2008.</p>	<p>After passing the House of Representatives the day before, the \$14bn proposed bailout plan for the US automotive industry – General Motors, Chrysler and Ford – fails to pass the Senate.</p> <p>Bernard Madoff, the founder of Bernard L. Madoff Investment Securities, is arrested and charged with criminal securities fraud by federal prosecutors.</p>	<p>President-Elect Obama announces he intends to nominate Mary Schapiro as Chairman of the SEC and Gary Gensler as the Chairman of the Commodity Futures Trading Commission (CFTC). Dan Tarullo is also nominated as a governor of the Federal Reserve Board.</p>	<p>US Treasury announces \$13.4bn loan to GM and Chrysler from TARP funds.</p> <p>President-Elect Obama announces he intends to nominate Ron Kirk as the US Trade Representative.</p>	<p>US Treasury announces \$5bn TARP investment in GMAC LLC.</p>

The SIFMA Foundation for Investor Education, an affiliate of the Securities Industry and Financial Markets Association, is a charitable, educational (501-c-3) organization dedicated to promoting financial education. The SIFMA Foundation sponsors several educational programs that reach audiences from children to retirees. Programs include:

■ **THE STOCK MARKET GAME (SMG)**

www.stockmarketgame.org SMG gives participating students a \$100,000 online portfolio to invest in stocks, bonds and mutual funds. Classroom learning focuses on long-term saving and investing, and supports core curriculum such as mathematics, social studies, business, technology and economics. SMG's InvestWrite national essay contest reinforces the lessons learned throughout the school year. More than 740,000 students in grades four through twelve and over 20,000 teachers benefited from the SMG last year – a record for participation and a year-over-year increase of 28 percent.

■ **TOMORROW'S MONEY** www.tomorrowmoney.org

A program driven by a suite of financial literacy web sites aimed at empowering women as financial decision makers for their households, young people, Spanish speakers, and people experiencing the financial impact of unwanted life changes.

■ **STATE TREASURERS GATEWAY INITIATIVE PARTNERSHIP AND NETWORK** Our partnership with the National Association of State Treasurers Foundation, and its more than 40 State Treasurers, provides state-based financial literacy for adults through websites, e-newsletters, publications and seminars.

■ **PATH TO INVESTING** www.pathtoinvesting.org Path to Investing is our award winning website that offers objective, engaging, and practical information to help investors at any skill level build the knowledge they need to make sound investment decisions. The website offers timely information and covers topics from Investing Basics to Planning for Retirement.

■ **INVESTING IN BONDS** www.investinginbonds.com / www.investinginbondseurope.org SIFMA offers two sites designed for US-based and European-based bond investors. Both are a rich resource for people at every point on the investing spectrum. The websites offer valuable information, price data, important indicators, as well as market news and commentary. Whether you are just beginning to think about investing in bonds or you are a seasoned investor, this site can answer questions and provide you with the tools you need to invest in the bond market. Investing in Bonds Europe is available in five languages.

SIFMA Foundation programs are supported by the generous donations of SIFMA member firms. To learn more about SIFMA Foundation programs and how you and your firm can get involved, please feel free to contact us:

■ **The Stock Market Game**

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■ **Tomorrow's Money**

■ **State Treasurers Gateway Initiative Partnership and Network**

■ **Path to Investing**

■ **Investing in Bonds**

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CONFERENCE OR EVENT	DATE	LOCATION
European Market Liquidity Congress (formerly e-Trading)	FEBRUARY 4	London, United Kingdom
ASF 2009	FEBRUARY 8-11	The Venetian - Las Vegas, NV
Insurance Risk Linked Securities Conference (US)	MARCH	New York, NY
Anti-Money Laundering Compliance Conference	MARCH 4	Marriott Marquis - New York, NY
Securities Industry Institute	MARCH 8-13	Wharton - Philadelphia, PA
Women in Finance	MARCH 30	Mumbai, India
European Government Bonds Investor Roadshow	APRIL	Hong Kong, Tokyo, Singapore
ESF Insurance Risk Congress	APRIL	London, United Kingdom
ESSF Clearing and Settlement	APRIL	London, United Kingdom
Operations Conference	APRIL 26-29	Westin Diplomat - Hollywood, FL
Market Structure Conference	APRIL / MAY	New York, NY
EHYA Discussion Forum	MAY	TBD
International Repo Seminar	MAY 20-21	Beijing, China
Hedge Funds and Alternative Investments Summit and Exposition	MAY / JUNE	New York, NY
Risk Management Conference	JUNE	New York, NY
ESF / IMN Global ABS	JUNE	Cannes, France
Wall Street to Washington	JUNE	Washington, DC
Cross Border Regulation Conference - 2nd Annual Conference	JUNE	TBD
Korean Covered Bonds Conference	JUNE	Seoul, Korea
Technology Management Conference	JUNE 23-25	Hilton - New York, NY
Fixed Income Legal and Compliance Conference	SEPTEMBER	New York, NY
Institutional Brokerage Conference	SEPTEMBER	New York, NY
Italian Mortgage Funding Conference	SEPTEMBER	Rome, Italy
Savings & Retirement Conference	SEPTEMBER	New York, NY or Washington, DC
Private Client Conference	OCTOBER	New York, NY
ESF / IMN CLOs, Credit Derivatives and Structured Products	OCTOBER	London, United Kingdom
EPDA Government Bonds	OCTOBER	Brussels, Belgium
EHYA Annual Leveraged Finance Conference	OCTOBER	London, United Kingdom
Asian Securitisation Conference	OCTOBER	Macao, China
SIFMA Annual Meeting	OCTOBER / NOVEMBER	New York, NY

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SIFMA membership provides you with a variety of resources and benefits.

RESEARCH

SIFMA's research team publishes numerous proprietary reports on the securities industry throughout the year. The "Research Quarterly", SIFMA's flagship research piece, is available along with an archive of all current and previous reports online.

www.sifma.org/research/

ONLINE NEWSLETTERS

Members may subscribe to several on-line newsletters, such as:

- **REGULATORY UPDATE:** Provides subscribers with information on SIFMA's most recent regulatory efforts in the US. Also includes a preview of some of the future regulatory initiatives that affect the securities industry on which SIFMA is considering taking action.
- **RELEASED TODAY:** Delivered daily, Released Today is a comprehensive overview of recent news, statements, and

important information and documents regarding recent market events.

- **WASHINGTON WEEKLY UPDATE:** Serves as an update on the weekly activities of SIFMA's Government Affairs Department and developments in Washington including legislative action, Congressional hearings, and bills introduced in both the House and Senate. Also includes a preview of the Congressional hearings scheduled for the following week. It is sent out on Fridays when Congress is in session.

www.sifma.org/members/newsletters.shtml

SMARTBRIEF

SIFMA SmartBrief and SIFMA Global SmartBrief bring together top financial news summaries and news coverage of the industry. Published Monday through Friday mornings throughout the year, it is a free daily e-news briefing for the global financial marketplace. It summarizes the day's most important articles culled from hundreds of top news sources.

www.smartbrief.com/sifma/

PUBLICATIONS

SIFMA members are offered significant discounted prices for our extensive library of publications. Among the most popular are:

- **SIFMA Yearbook:** A guide to all SIFMA member firms.
- **Investor Guides:** A series of guides geared towards retail investors, covering topics ranging from Bond Basics to GSE Debt Securities and TIPS calculations. Guides can be co-branded with a firm's logo.
- **Sources:** A directory of resources for the financial industry.



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Michael Paese – Executive Vice President, Global Advocacy, SIFMA, **David Heller** – SIFMA Board of Directors; Goldman, Sachs & Co

■ Foreign Activity Report: A quarterly report that tracks purchases and sales US securities by foreign investors and US purchases and sales of foreign securities.

■ Factbook: An annual report containing comprehensive data on the securities industry, capital markets, market activity, investor participation, global markets, saving and investment and more.

www.sifma.org/services/publications/

WEBSITES

SIFMA's family of websites is as large and diverse as the financial industry itself. Please visit www.sifma.org to view our main website. Other sites of interest are:

SIFMA Affiliates and Forums

■ Asia Securities Industry & Financial Markets Association (ASIFMA)

www.asifma.org

■ The Asset Managers Forum

www.theassetmanager.com/

■ American Securitization Forum (ASF)

www.americansecuritization.com

■ European High Yield Association (EHYA)

www.ehya.com

■ European Primary Dealers Association (EPDA)

www.europe.sifma.org/epda.shtml

■ European Primary Markets Division (EPMD)

www.europe.sifma.org/epmd.shtml

■ European Securitisation Forum (ESF)

www.europeansecuritisation.com

■ European Securities Services Forum (ESSF)

www.essf.sifma.org

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■ Customer Account Transfer - www.sifmacat.org

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■ Dividend - www.sifmadiv.org

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■ Securities Operations - www.sifmasod.org

SIFMA-PAC

SIFMA's Political Action Committee (SIFMA-PAC) is a voluntary, non-partisan committee whose objective is to promote the interests and concerns of its members on Capitol Hill. One hundred percent of all PAC contributions are used to raise funds for the campaigns of members of the US Senate and House of Representatives who care about strong, competitive financial markets. Candidates are selected after a thorough review of items including their alignment with SIFMA's legislative agenda and priorities, as well as their leadership positions on committees of key importance to SIFMA's member firms. Since federal laws prohibit corporations from contributing directly to a candidate, SIFMA-PAC is a critical source of funding and is your link to Capitol Hill.

For more information on how you can be involved, please contact Jennifer Frazier at 202-962-7390 or jfrazier@sifma.org.



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2009

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