

Urgent Capital Market Reforms needed

Orlando Declaration 2010

The International Stock Exchange Executives Emeriti (“[ISEEE](#)”) is a global non-profit organization of current and former senior executives from stock and derivatives exchanges. We are incorporated in the State of New York. The purpose of the ISEEE is educational in nature, enabling our members to share insights and trends on developments in the World’s financial markets in areas including organization, operations, listing, trading, disclosure, clearing and settlement, access to the market, technical infrastructure, risk management, surveillance and enforcement, investor protection and foreign investment.

We held our 2010 Annual Meeting over three days from March 28 to March 31 where we discussed and reviewed international capital market developments and global reform initiatives.

Participants in this year’s Annual Meeting included twenty-five exchange officials (many former CEOs) representing North America, Europe, Asia and South America. Our participants were split fairly evenly between executives with experience in the United States and Foreign markets. Present or past affiliations included the New York Stock Exchange, NASDAQ, American Stock Exchange, the National Stock Exchange and the Chicago Board of Options Exchange. Foreign participants had present or past affiliations with the Toronto Stock Exchange, Sao Paulo Stock Exchange (Bovespa), New Zealand Stock Exchange, Eurex, Deutsche Börse, Zurich Stock Exchange, Abu Dhabi Securities Exchange, Frankfurt Stock Exchange, Australian Securities Exchange, European Options Exchange and the Berlin Stock Exchange.

The discussions led to the following decisions by the group, as their Orlando Declaration of 2010:

Eleven Actions for Balanced Reform Needed to Drive Global Financial Recovery

The 11 actions set out in our [2009 Orlando Declaration](#) are still needed to strengthen market integrity and restore investor confidence and trust.

Action One: Improved Governance : the governance concerns about the structuring, recruitment and retention, independence and integrity of oversight, administration and enforcement organizations must be seriously addressed.

Action Two: Independence: Regulatory authorities should be independent, as the judiciary and auditors are expected to be.

Action Three: Remuneration and Incentives: Remuneration incentives should not positively encourage institutional risk taking with assets held for safekeeping.

Action Four: Regulators and Government Policy makers need to be challenged to:

- Improve incentives to ensure high calibre staff and effective and independent supervision and enforcement;
- Make rules and respond flexibly and quickly to rapidly changing market practices.
- Be remuneration completely independently of any regulated entity or product;
- Eliminate regulatory conflicts;
- Avoid new restrictions on innovation;

- Extend regulation and supervision to all *systemically significant entities*;
- Not blame Accounting Standards; and
- Review (inadequate) capital adequacy rules and seek smarter and better, not more, regulation.

Action Five: Transparency: All systemically significant entities should provide full public transparency of their operations.

Action Six: Language: Encourage the media to avoid emotive language to describe products.

Action Seven: Complexity and Understanding: Ensure *continuous education and training* in capital markets, especially for officials and regulators and directors of systemically significant firms.

Action Eight: Ratings: Change the model to remove rating agency conflicts.

Action Nine: Oversight: Governments should establish agencies to review and oversee financial risk, and require explicit funding for those risks.

Action Ten: Deposit Protection: Governments should either restrict the size of deposit taking institutions and allow them to fail, or guarantee deposits and regulate the management of depositors assets.

Action Eleven: Open Government: Governments should make all social policies explicit, fund them directly, and refrain from using indirect incentives or requirements to pursue them.

Equity Market Structure needs to be reviewed and improved

The ISEEE members decided to comment on the US Securities and Exchange Commission's Concept Release on Equity Market Structure by the requested date of April 21, 2010. The [ISEEE comment letter](#) was submitted to the SEC by the due date and offered comments and recommendations in three areas which are summarised below; Capital Formation, Market Regulation and Market Quality. .

Many comments in the submission apply to most other equity markets worldwide:

Capital Formation: The detrimental impact of current market structure.

1. **Recommendation:** Government authorities should focus on revitalizing the initial public offering (IPO) markets by improving the market structure to provide more support and liquidity for small and micro capitalization companies.
2. **Recommendation:** Government authorities should undertake a full analysis of the direct and indirect costs of going public and maintaining a public company to assure that the associated obligations are appropriate and reasonable for the size of the company.

Market Regulation: Oversight and Transparency need to be improved.

1. **Recommendation:** Countries must have a national (centralized) trading surveillance, data collection and enforcement system.
2. **Recommendation:** Countries should separate all regulation and enforcement from for-profit trading venues where there is a clear conflict of interest.
3. **Recommendation:** Markets and industry participants should move to a shorter (minimum) settlement period and require a “hard locate” system to minimize certain abusive practices, minimize systemic risk and increase investor confidence.

4. **Recommendation:** National Regulators should adopt and universally apply formal definitions of “liquidity” that incorporate tradable volume, the time period, and a limited variation in stock price.

Market Quality: Large and small capitalization stocks and investors are worlds apart.

1. **Recommendation:** Regulators should work jointly with the authorities of other markets to address the erosion of support for small and micro capitalization stocks and their investors.
2. **Recommendation:** Regulators should develop appropriate metrics of market quality for different market capitalization segments.

The crisis for financing small enterprises

Participants discussed in detail the effects of the higher public and private debt levels, and the weakening of government and corporate balance sheets in many countries which is particularly affecting smaller enterprises, and encouraged governments and international institutions to focus even more on the present indebtedness. Research is showing that international capital market structures have progressively moved to provide better support for large companies and to reduce capital finance available for small and mid-cap enterprises. As a consequence, millions of jobs are not being created by these enterprises, which are vital to economic growth and the subsequent ability to pay off the sovereign debt.

Accordingly the Group has resolved to formulate and suggest practical and positive steps to improve the way international market structures support the formation and capital raising of small and mid cap enterprises; recognizing the vital importance, globally, of the potential of this sector of the market.

To this end the ISEEE has created a ***Small Business Financing Crisis (SBFC) Task Force*** and work is underway. The SBFC Task Force is Chaired by David Weild IV, Chairman Capital Markets Advisory Partners and Former Vice Chairman of NASDAQ, and Mr Donald Calvin, current Chairman of ISEEE, former Chairman of the National Stock Exchange and former Member of the Office of the Chairman NYSE, as Vice Chairman. Former CEOs of the New Zealand Stock Exchange, the Sao Paulo Stock Exchange (Bovespa) and the Frankfurt Stock Exchange and the Former Deputy Minister of Finance of Kazakhstan are ISEEE members on the Task Force . A leading Washington, DC attorney and ISEEE member heads up the legal efforts and the CEO of Wall Street Management and Capital and the Managing Director of Corporate Finance Associates head up the interface with SME executives. The initial phase of the SBFC Task Force work will be to develop, with input from SME executives, legal and accounting experts, a program to facilitate the raising of equity capital for financing small and medium sized enterprises to create jobs and stimulate the economies in countries worldwide. The first phase is expected to be completed in early 2011.

ISEEE July 22, 2010

(For enquiries please contact William Foster, Vice Chairman ISEEE via the [ISEEE website](#))

Both the Orlando Declaration 2009 and the ISEEE Comment Letter to the US Securities and Exchange Commission are on the ISEEE web site www.capitalmarketexperts.net along with a list and brief bios of the ISEEE Directors and Members.

Background:

ISEEE (International Exchange Executives Emeriti Inc) is a not for profit corporation registered in the State of New York, organized for educational purposes to, inter alia, leverage the expertise of former senior executives from all major exchanges around the world to better understand and formulate opinions on the leading issues affecting the global exchange community.

The ISEEE 2010 Meeting was hosted by the Metro Orlando Economic Development Council and Jim Schnorf of Wall Street Management and Capital of Orlando www.wsmcapital.com and Dick Batchelor of the Dick Batchelor Management Group, Inc. www.dbmginc.com without whom the Meeting would not have been the success it was. They were not only gracious hosts but also sponsored or arranged for the following sponsors for the reception with members of the Orlando business community in Downtown Orlando and for the business luncheons and dinners which were essential to the success of the Meeting: BlueSky Solar-Orlando, Kidd & Company-Greenwich, Coles Centre Hospitality, LLC, and UCM Partners.