

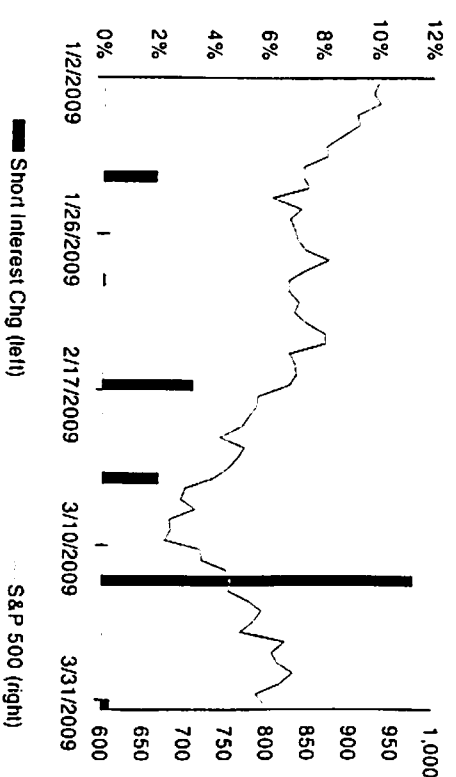
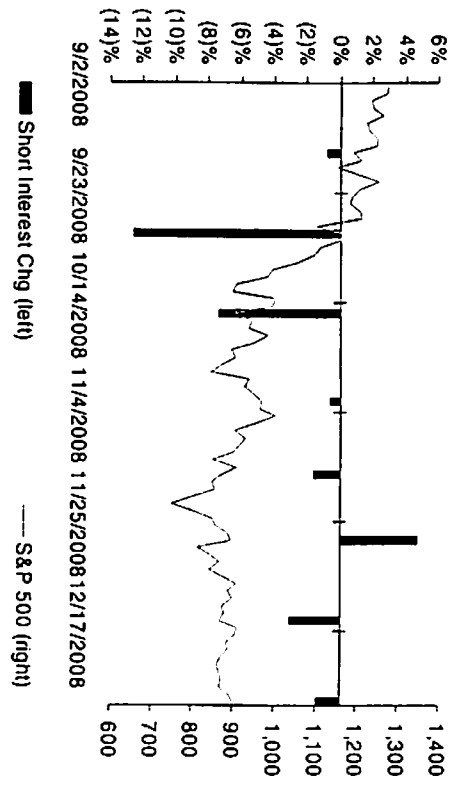
Summary

- **The US equities market is increasingly efficient and is broadly regarded as the best in the world.**
 - Spreads are reduced, execution costs are down, and liquidity is up
- **The investing community (especially retail) has benefitted from the evolving market structure and industry competition.**
- **Themes in the current market structure debate:**
 1. *Short Selling, Pre-borrow, & Hard Locates*
 - Rule 204 of Regulation SHO has been effective at reducing fails in the marketplace.
 - The necessity of additional measures to eliminate fails or “naked” short selling are not supported by empirical evidence.
 - 99.9% of locates do not fail.
 - Pre-borrow requirements would dramatically harm liquidity and market efficiency.
 2. *“Dark Pools” & Reg ATS:*
 - Non-displayed liquidity has always existed.
 - “Dark Pools” are a technological evolution of classic market structure that have brought benefits to institutional and retail trading alike.
 - “Trade-At Protection,” or a reduction to the Reg ATS Fair Access threshold, would not be in the best interest of investors.
 3. *High-Frequency Trading & Exchange Co-location*
 - Additional trading obligations should be attached to the privilege of co-location and special rebates offered by exchanges.
 4. *Sponsored Access / DMA*
 - “Naked” sponsored access introduces the potential for significant systemic risk due to the lack of appropriate risk controls.
 5. *Flash Trading & IOIs*
 - Goldman Sachs believes that actionable IOIs and so called “flash orders” from exchanges should be treated as quotes and subject to the applicable rules and regulations.

I. Review of Short Activity

Short Interest Fell Sharply

- During the Short Sale Ban (Sept 18 - Oct 8, 2008), public short interest declined 19% while the market declined 15%. [1]
- Public short interest accelerated as the market began to rally in March 2009



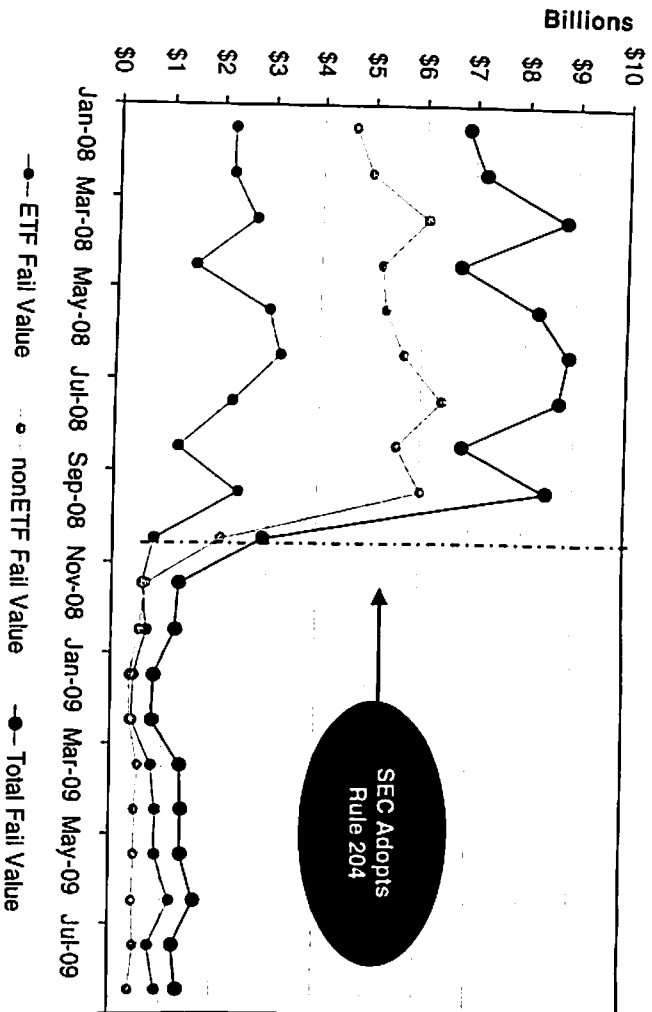
Source: Values calculated from Bloomberg Data
 [1] Bloomberg Data: NYSE Short Interest on Sept 15, 2008 (14.7BN shares) compared to Oct 15, 2008 (11.9BN shares)

II. Rule 204 of Regulation SHO has been effective

Reduction in CNS Fails

Since Implementation:

- 89% reduction in CNS fails for non-ETF's
 - Before 204 = \$5.5BN
 - After 204 = \$633MM
 - **Reduction of \$4.9BN**
- 67% reduction in CNS fails for ETFs
 - Before 204 = \$2.3BN
 - After 204 = \$772MM
 - **Reduction of \$1.5BN**
- 82% reduction in CNS fails for ALL stocks
 - Before 204 = \$7.9BN
 - After 204 = \$1.4BN
 - **Reduction of \$6.4BN**



Source: <http://www.sec.gov/loia/docs/failsdata.htm>