

MEMORANDUM

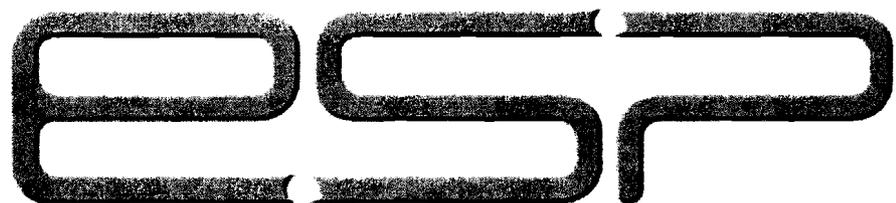
May 21, 2010

To: File No. S7-02-10

From: Gena Lai
Office of Commissioner Troy A. Paredes

Re: Concept Release on Equity Market Structure

On May 19, 2010, Commissioner Troy A. Paredes, and Gena Lai, Counsel to the Commissioner, met with the following representatives of Electronic Securities Processing (ESP) LLC and ESP Technologies Corp.: Josh Levine, CEO; Susan Ameel, General Counsel; and Richard Y. Roberts. The participants discussed generally issues raised by the Concept Release. Mr. Levine provided the attached presentation, titled "Impact of Fragmentation on Post Trade Processing for Institutional Investors."



ESP TECHNOLOGIES CORP.

Impact of Fragmentation on Post Trade Processing for Institutional Investors

Presentation to the SEC

May 2010

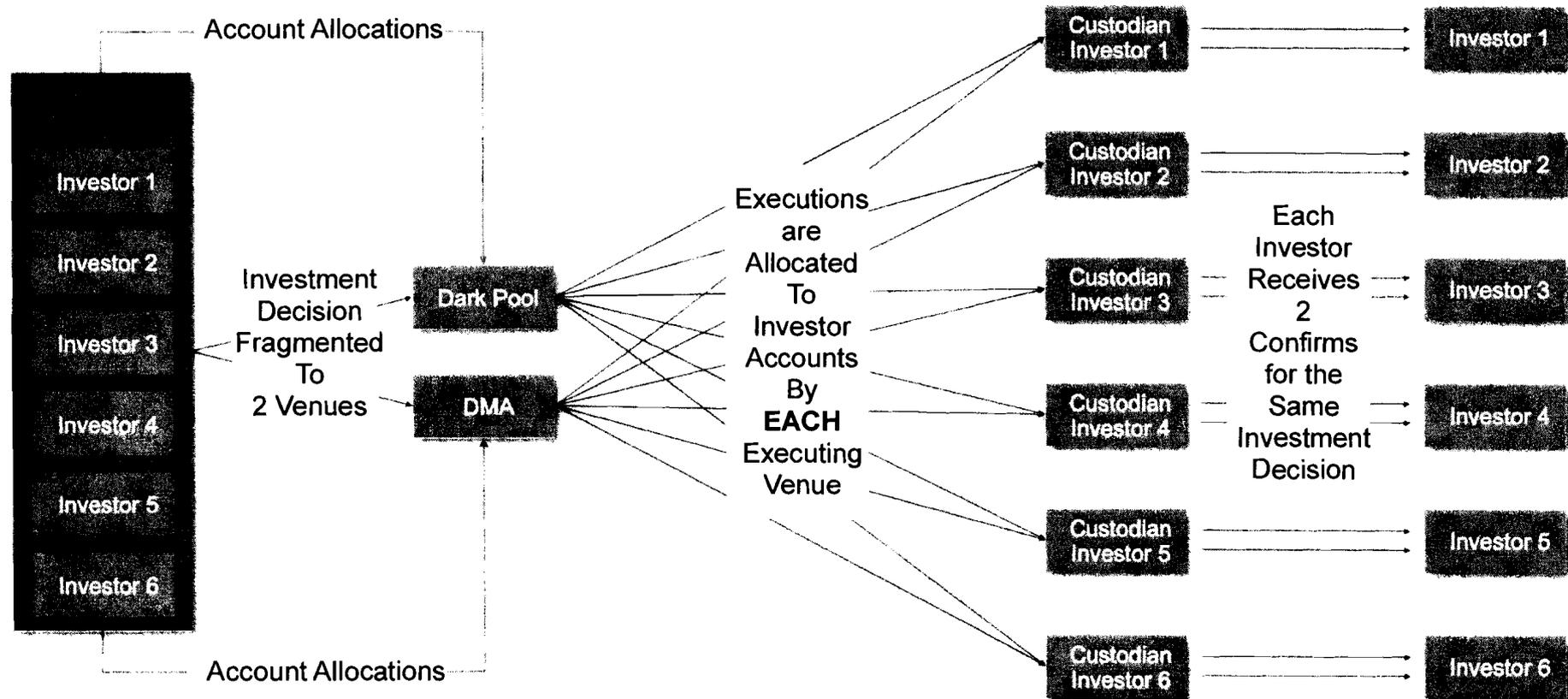


What We Do

- **ESP helps money managers to reduce investors' brokerage cost in accordance with best execution.**
- **With ESP, money managers can**
 - » **fragment orders to obtain best execution, and reduce the investors' costs associated with increased custodial deliveries**
 - » **algorithmically spread clearing and settlement risk across many counterparties on a post trade basis**
 - » **reduce and manage fails with higher affirmation rates**
- **ESP should be permitted to create innovative solutions without fear that quasi government monopolies will unfairly compete.**

Typical Situation

- Best execution requirement contributes to fragmentation
- Fragmentation increases settlements & post trade processing
- More processing also = more breakage & more custodial fees



The Problem: High Post Trade Processing Cost of Fragmentation

- Active institutional asset managers, seeking best execution, may fragment a single block order across several brokers
 - » Each broker then has to allocate trades to underlying investor accounts
 - » Each broker bears the cost of clearing and settling these trades
 - » The investor accounts must pay the custodian for each delivery from the multiple brokers
- The Tabb Group estimates \$15.65 as the average cost per delivery
 - » Staffing \$0.30 + Fails \$0.90 + Omgeo OASYS \$0.20 + Custody, \$14.25
 - » Securities Industry News reports custodial cost per settlement of up to \$25
- These additional post trade costs can reduce trade performance by a 1 basis point or more
 - » A 10,000 share settlement of a \$20 stock with just \$20 in backend costs
- ESP has saved active managers 34% of their tickets with daily highs reaching 50%

ESP Is The Solution

- Less settlements, higher affirmation rates and less fails
- Less custodial fees to investors
- Manage counterparty risk across ESP clearing firms

