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RESEARCH QUARTERLY

Fourth Quarter 2012

RESEARCH REPORT

TABLE OF CONTENTS

Table of Contents i
Capital Markets Overview 2
Municipal Bond Market 3
Treasury Market 4
Federal Agency Debt Market 6
Funding and Money Market Instruments 7
Mortgage-Related Securities 8
Asset-Backed Securities 9
Collateralized Loan Obligations 10
Corporate Bond Market 11
Equity and Other Markets 13
Derivatives 16
Primary Loan Market 17

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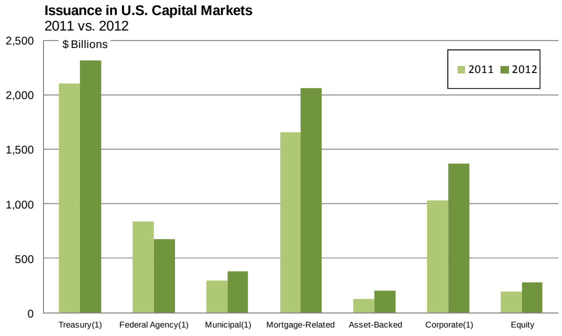
CAPITAL MARKETS OVERVIEW



(1) Includes long-term issuance only
Source: Thomson Reuters, U.S. Treasury, U.S. Federal Agencies

Issuance Highlights - Year-Over-Year

$ Billions	2012:Q4	2011:Q4	Y-o-Y % Change*	2012
Treasury [(1)]	638.3	448.8	42.2%	2,318.2
Federal Agency [(1)]	136.8	190.1	-28.0%	677.4
Municipal [(1)]	97.3	101.1	-3.8%	379.0
Mortgage-Related	566.6	457.1	24.0%	2,063.5
Asset-Backed	44.8	32.3	38.9%	199.4
Global CDO	17.6	15.1	16.5%	45.4
Corporate [(1)]	370.1	196.1	88.7%	1,374.2
Equity	63.6	31.5	102.1%	277.6

* Percent change between 2012:Q4 and 2011:Q4

Quarter-Over-Quarter

$ Billions	2012:Q4	2012:Q3	Q-o-Q % Change*
Treasury [(1)]	638.3	544.0	17.3%
Federal Agency [(1)]	136.8	187.2	-26.9%
Municipal [(1)]	97.3	87.7	11.0%
Mortgage-Related	566.6	540.4	4.8%
Asset-Backed	44.8	51.7	-13.3%
Global CDO	17.6	11.5	52.8%
Corporate [(1)]	370.1	351.7	5.2%
Equity	63.6	88.5	-28.1%

* Percent change between 2012:Q4 and 2012:Q3
[(1)] Includes long-term issuance only

Total Issuance Rises in Fourth Quarter 2012

Long-term securities issuance totaled $1.93 trillion in the fourth quarter of 2012, a 3.9 percent increase quarter-over-quarter (q-o-q) and a 31.5 percent increase year-over-year (y-o-y). For the full year, securities issuance reached $7.3 trillion, a 16.5 percent increase from 2011. Gains by dollar amount were concentrated in mortgage-related and corporate issuance while asset-backed securities issuance increased by percentage, but all categories except federal agency issuance increased from 2011.

In its December 12, 2012 release the Federal Open Market Committee (FOMC) maintained its position that economic conditions continued to warrant exceptionally low levels for the federal funds rate through mid-2015, but added new guidance that such rates would be maintained at least as long as: 1) the unemployment rate remains above 6.5 percent; 2) inflation over a 1-2 year time horizon is projected to be no more than 2.5 percent; and 3) long-term inflation expectations remain 'well anchored'. The FOMC also announced additional Treasury purchases of $45 billion per month upon the expiration of 'Operation Twist' at end-2012, but altered purchase trends in order to maintain the same duration impact.[1]

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was $2.07 trillion in 4Q'12, a 7.5 percent increase from $1.92 trillion issued in 3Q'12 and 17.8 percent increase from 4Q'11's issuance of $1.75 trillion. During 2012, the U.S. Treasury issued $7.74 trillion in bills, CMBs, and coupons, a 4.7 percent increase from $7.39 trillion in the previous year.

Federal agency long-term debt (LTD) issuance was $136.8 billion in the fourth quarter compared to $187.2 billion in the 3Q'12, and fell 28.0 percent y-o-y. For the full year, federal agency issuance was $677.4 billion, a 19.3 percent decline from 2011 ($839.2 billion).

Long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $97.3 billion in the fourth quarter, an increase of 16.4 percent from the prior quarter ($83.6 billion) but a decline of 3.8 percent y-o-y. For the full year 2012, municipal issuance totaled $379.0 billion, just shy of the 10-year average ($381.3 billion) and a 28.6 percent increase from 2011.

Issuance of mortgage-related securities, including agency- and non-agency pass-throughs and collateralized mortgage obligations (CMOs), totaled $566.6 billion in 4Q'12, a 4.8 percent increase and 23.6 percent increase, respectively, from 3Q'12 ($540.4 billion) and 4Q'11 ($458.6 billion). For the full year, issuance was $2.1 trillion, a 24.3 percent increase from $1.7 trillion in 2011.

Asset-based securities issuance totaled $44.8 billion in the fourth quarter, a decline of 12.4 percent from 3Q'12 ($51.2 billion) but a 48.3 percent increase from 4Q'11 ($30.2 billion). For the full year 2012, issuance was $199.4 billion, a 58.0 percent increase from $126.2 billion in 2011.

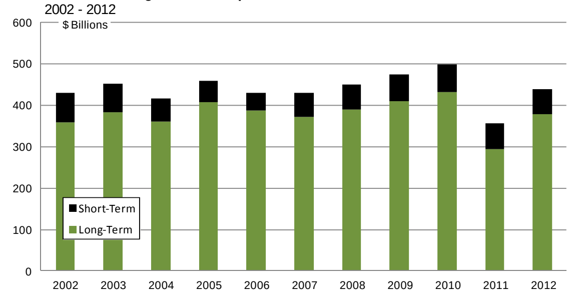
Total corporate bond issuance totaled $364.6 billion in 4Q'12, 5.0 percent above the $347.1 billion issued q-o-q and 88.8 percent above the $193.1 billion issued in 4Q'11. For the full year, $1.34 trillion in corporate debt was issued, 33.8 percent above $1.01 trillion issued in 2011 and the highest annual issuance on record.

Equity underwriting was $63.6 billion in 4Q'12, 27.5 percent below the $87.8 billion in 3Q'12 but double the $31.5 billion in 4Q'11.

[1] Statement from the Federal Open Market Committee, January 30, 2013.

MUNICIPAL BOND MARKET

Short-[1] and Long-Term Municipal Issuance
2002 - 2012

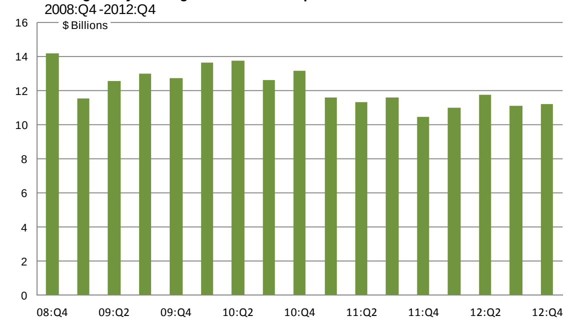


[1]Includes maturities of 13 months or less
Source: Thomson Reuters

Municipal GO AAA and 10-Yr Treasury Ratio
Dec. 2005 - Dec. 2012

Source: Bloomberg, MMA

Average Daily Trading Volume of Municipal Securities[1]
2008:Q4 -2012:Q4



[1]Includes both dealer-to-dealer and customer-to-dealer transactions.
Source: Municipal Securities Rulemaking Board

Primary Market

Long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $97.3 billion in the fourth quarter of 2012, an increase of 11.0 percent from the prior quarter ($87.7 billion) but a decline of 3.8 percent y-o-y. For the full year 2012, municipal issuance totaled $379.0 billion, just shy of the 10-year average ($381.3 billion) and at levels last seen in 2003 ($378.5 billion).

Tax-exempt issuance totaled $79.4 billion in 4Q'12, a 16.9 percent increase q-o-q but a decline of 1.9 percent y-o-y. Taxable issuance was $8.7 billion in 4Q'12, a decline of 19.5 percent q-o-q but unchanged y-o-y.

By use of proceeds, general purpose led issuance totals in 4Q'12 ($24.2 billion), followed by primary & secondary education ($13.6 billion), and water & sewer facilities ($7.3 billion).

Refundings remained elevated in the fourth quarter, but declined slightly as a percentage of issuance (57.3 percent) compared to 3Q'12 (59.5 percent), but still above 4Q'11 (47.8 percent).[2] Municipal supply, net of redemptions, continued to remain overall negative in the fourth quarter with refundings driving volumes.

Yields, Inflows, and Total Return

Ratios of 10-year tax-exempt AAA GOs and similar-maturity Treasuries moved lower in the fourth quarter, ending at 96.4 percent. Yields on municipal bonds reached new lows in November, before rising slightly on fiscal cliff and municipal tax exemption concerns.

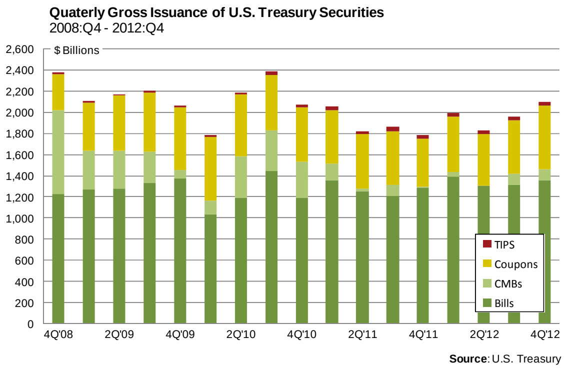
The municipal market returned 0.7 percent on a total return basis in 4Q'12 and 6.8 percent for the full year 2012. According to the Investment Company Institute (ICI), fourth quarter inflow into long-term municipal funds was positive with $7.4 billion of inflow, albeit down from the prior quarter ($14.9 billion of inflow) and y-o-y ($9.8 million of inflow in 4Q'11).

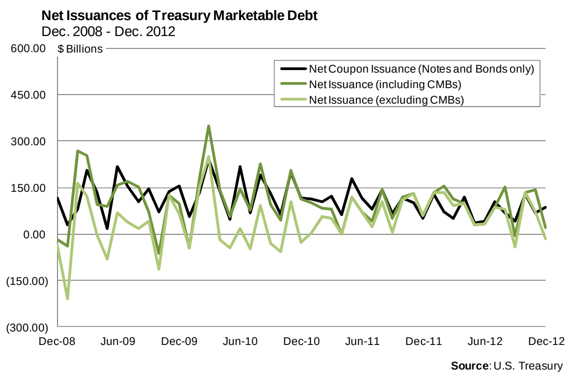
Trading Activity and Dealer Inventories

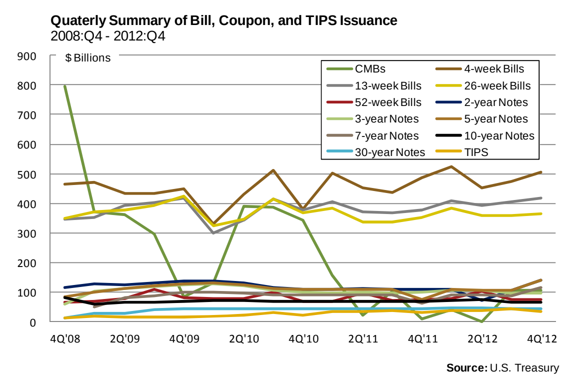
Trading activity increased q-o-q to $11.2 billion daily in 4Q'12, a 1.1 percent increase from 3Q'12 ($11.1 billion traded daily) and a 7.1 percent increase y-o-y ($10.5 billion traded daily in 4Q'11). The average daily number of trades, however, declined slightly q-o-q (a decline of 1.0 percent) and y-o-y (a decline of 2.3 percent).

[2] Percentages represent both full refundings and the full dollar amount of deals that contain both refundings and new refinancing.

TREASURY MARKET







Issuance of U.S. Treasury Securities Increases

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was $2.07 trillion in 4Q'12, a 7.5 percent increase from $1.92 trillion issued in 3Q'12 and a 17.8 percent increase from 4Q'11's issuance of $1.75 trillion. During 2012, the U.S. Treasury issued $7.74 trillion in bills, CMBs, and coupons, a 4.7 percent increase from $7.39 trillion in the previous year.

Total fourth quarter net issuance of U.S. Treasury securities, including CMBs, increased to $295.4 billion, up 27.3 percent from the previous quarter's $232.0 billion but 4.7 percent below the $310.0 billion issued in 4Q'11. The 4Q'12 issuance of $232.0 billion in net marketable debt was 2.6 percent above the Treasury's October 4Q'12 borrowing estimate of $288 billion.[3] In 2012, net issuance of U.S. Treasury securities stood at $1.09 trillion, 9.0 percent higher than net issuance of $999.2 billion in 2011.

Excluding cash management bills (CMBs), total net issuance stood at $190.4 billion in 4Q'12, a 49.9 percent increase from $127.0 billion in the prior quarter but 36.6 percent below 4Q'11's issuance of $300.0 billion.

The issuance of CMBs stayed unchanged at $105.0 billion in the fourth quarter, tied for the highest quarterly issuance on record with the previous quarter. Despite the high issuance volume of CMBs in the second half of 2012, the issuance for the whole year was $250.0 billion, 12.9 percent lower than the $287.0 billion issued in 2011.

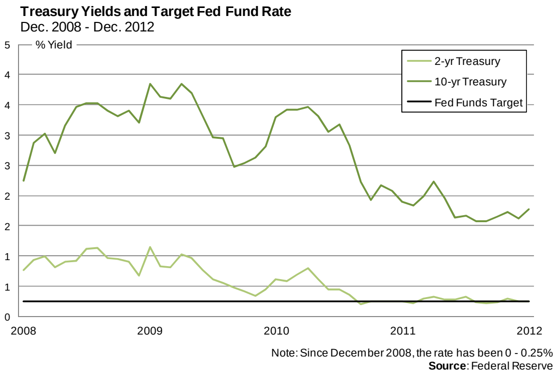
Approximately $634.0 billion in Treasury coupons plus Treasury Inflation-Protected Securities (TIPS) were issued in the fourth quarter, 16.5 percent above the $544.0 billion issued in the prior quarter and 30.7 percent above issuance of $485.1 billion y-o-y. The U.S. Treasury indicated that it remains pleased with the demand for inflation protection.

Excluding TIPS, total gross issuance of Treasury marketable coupon securities was $600.0 billion, a 19.5 percent increase from $502.0 billion issued in 3Q'12 and 32.1 percent above the $454.3 billion issued in 4Q'11. Net coupon issuance for the fourth quarter of 2012 was $282.4 billion, a 33.0 percent increase from 3Q'12s $212.4 billion and up 5.8 percent y-o-y.

This increase in both gross and net coupon issuance is consistent with the Treasury transitioning from bill to coupon financing. The percentage of nominal coupons in the Treasury's portfolio has been gradually increasing and the average maturity of the portfolio continues to extend. The average maturity of the portfolio is currently approximately 64.4 months, higher than 64.2 months last quarter and well above the 3 decade average of 58.1 months.

Gross issuance of bills, including CMBs, was $1.36 trillion in 4Q'12, a 3.2 percent increase from previous quarter's $1.31 trillion and a 12.8 percent increase from $1.30 trillion issued during the same year-ago period.

[3] Treasury Announces Marketable Borrowing Estimates, October 29, 2012.



Trading Volume Decreases Slightly

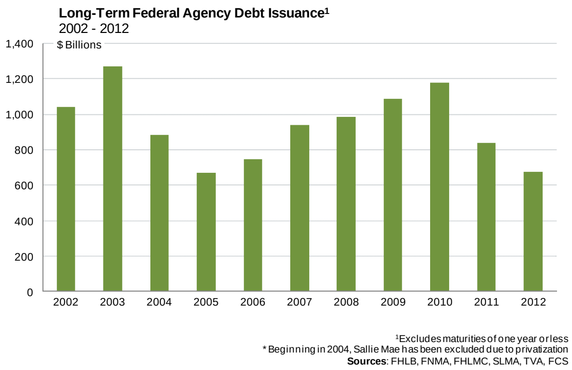
The average daily trading volume decreased very slightly in the fourth quarter of 2012 for the third consecutive quarterly drop in trading activity. Daily trading volume of Treasury securities by primary dealers averaged $507.9 billion in 4Q'12, compared to $510.1 billion in the prior quarter (0.4 percent decrease) and $529.4 billion in 4Q'11 (4.1 percent decrease). The average daily trading volume of Treasuries is 2.0 percent below its 5-year average of $518.1 billion.

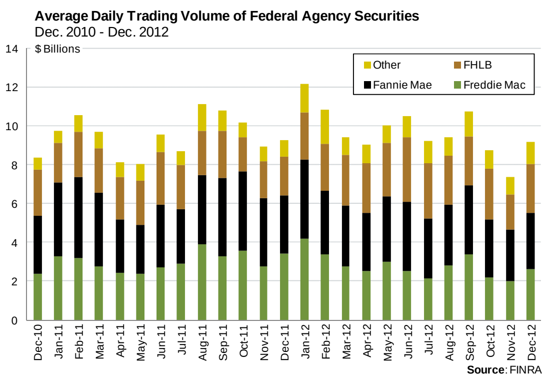
Treasury Yields Increase

In 4Q'12, yields increased across all maturities. Two-year rates increased slightly from 0.24 percent in September 2012 to 0.25 percent at the end of 2012, 5-year yields jumped from 0.63 percent to 0.72 percent in the end of December, the 10-year yields rose from 1.64 percent in September to 1.78 percent in 4Q'12, and the 30-year yields increased in fourth quarter from 2.83 percent to 2.95 percent. SIFMA's Quarterly Issuance and Rates Forecast Survey[4] respondents forecast benchmark 2-year Treasury yields to decrease to 0.21 percent by June 2013. The rates for all other maturities are expected to gradually increase through 2Q'13. The 5-year yields are projected to increase gradually to finish 2Q'13 at 0.78 percent, the 10-year rates to rise to 1.90 percent in the end of June 2013, and the 30-year yields to finish 2Q'13 at 3.10 percent.

[4] 1Q'13 SIFMA Quarterly Issuance and Rates Forecast survey can be found here.

FEDERAL AGENCY DEBT MARKET





Agency Long-Term Debt Issuance Trends Down

Federal agency long-term debt (LTD) issuance was $136.8 billion in the fourth quarter compared to $187.2 billion in the 3Q'12, and fell 28.0 percent y-o-y. Overall, average daily trading volume of agency securities in the fourth quarter was $8.5 billion, a decline of 13.3 percent q-o-q and a 10.5 percent decline y-o-y. Trading activity for Freddie Mac debentures increased 16.0 percent q-o-q, while Fannie Mae experienced a delince of 18.5 percent. The Federal Home Loan Banks (FHLBs) debentures increased moderately by .98 percent.

The 12 Federal Home Loan Banks issued $50.4 billion LTD in the fourth quarter, a decrease of 33.6 percent and 13.9 percent, respectively, from 3Q'12 ($75.9 billion) and 4Q'11 ($58.6 billion). A little more than $1.04 trillion in short-term debt (STD) was issued in 4Q'12, an increase of 5.9 percent q-o-q and 150.0 percent y-o-y.

Total FHLB LTD outstanding was $471.5 billion at year end. 3 percent above the $457.1 billion outstanding at the end of the third quarter and down 6.1 percent y-o-y from $501.6 billion. Discount notes decreased slightly to $216.3 billion end-December from end-September 2012 ($217.3 billion). However, this was an increase from end-December 2011 ($190.2 billion).

Fannie Mae's 4Q'12's gross debt issuance, both STD and LTD, totaled $129.1 billion, down 10.5 percent from 3Q'12 ($144.2 billion); STD issuance decreased to $64.3 billion, a 17.9 percent decrease q-o-q while LTD issuance remained flat at $64.8 billion. Fannie Mae had $105.2 billion in STD outstanding in 4Q'12, consistent with 105.1 STD outstanding as of 3Q'12, and $516.5 billion LTD outstanding, a decrease of 6.7 percent from 2Q'12.

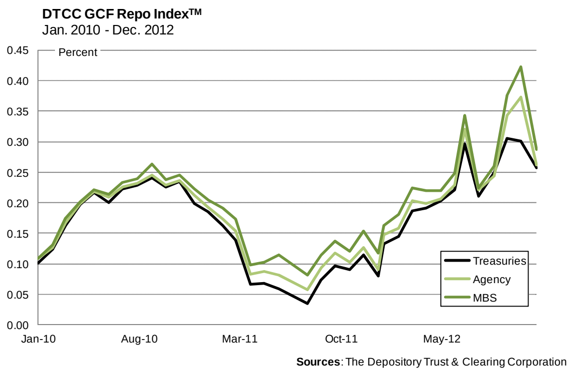
Freddie Mac's fourth quarter gross debt issuance totaled $109.7 billion, a 6.2 percent idecrease from 3Q'12 ($116.9 billion) but a 27.9 percent decrease from 4Q'11 ($152.6 billion). As of quarter-end, Freddie Mac had $118.5 billion STD and $436.3 billion LTD outstanding, a decline of 3.1 percent and 4.4 percent, respectively, from the prior quarter.

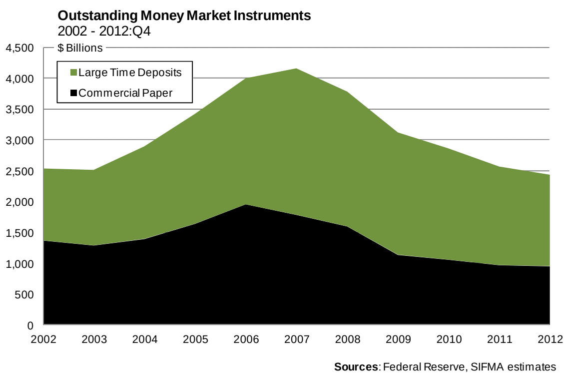
Total Farm Credit System gross debt issuance at year end totaled $370.5 billion. Total debt outstanding ended the fourth quarter at $196.5 billion, of which $15.3 billion was short-term and $181.2 billion was long-term debt.

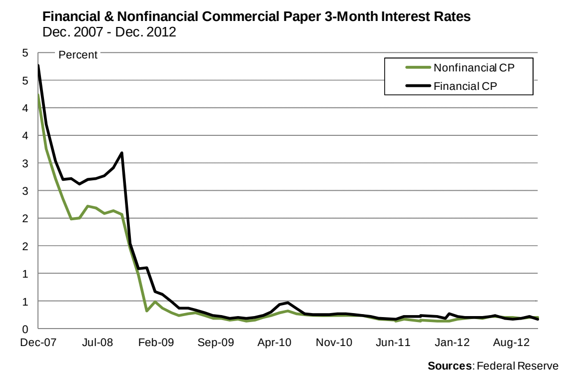
Primary dealers polled by SIFMA in the First Quarter Government Forecast survey expected gross coupon issuance for the four largest Federal agencies (FHLB, Fannie Mae, Freddie Mac, and the Farm Credit Systems) to reach $239.0 billion in the first quarter of 2013.[5] By agency, gross coupon issuance was expected to be $62.2 billion for Fannie Mae, $65 billion for Freddie Mac, $98.0 billion for the FHLBs, and $11.7 billion for the Farm Credit System.

[5] See SIFMA's U.S. Government Forecast 1Q'13.

FUNDING AND MONEY MARKET INSTRUMENTS







Total Repurchase Activity Increases in Fourth Quarter[6]

The average daily amount of total repurchase (repo) and reverse repo agreement contracts outstanding increased to $4.88 trillion in 4Q'12. This represents a slight increase from 3Q'12's average of $4.86 trillion, yet a 1.0 percent decrease y-o-y.

Daily average outstanding repo transactions totaled $2.73 trillion in 4Q'12, up slightly from 3Q'12's average of $2.71 trillion. Further, reverse repo transactions in 4Q'12 averaged nearly $2.15 trillion, unchanged from 3Q'12.

Treasuries, Agency and MBS Repo Rates Rise

In 4Q'12 the DTCC GCF Repo rates increased for Treasuries, agency debt, and MBS. Specifically, the repo rate for Treasuries (30-year and less) increased to 0.257 percent from 0.250 percent in 3Q'12. The agency repo rate rose to 0.262 percent from 0.244 percent, and the MBS repo rate increased to 0.287 percent from 0.261 percent. More generally, the use of agency MBS as collateral for repo continues to grow, with approximately 38.8 percent by dollar amount of triparty repo collateralized by agency MBS in December 2012, compared to 36.7 percent in the previous year.

Total CP Outstanding Decreases

The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, stood at $2.43 trillion at the end of the fourth quarter, 1.2 percent below the $2.46 trillion in 3Q'12 and a 5.2 percent decrease y-o-y. CP outstanding totaled approximately $952 million, a 0.4 percent decrease from the $956 million in 3Q'12 and a 1.7 percent decrease y-o-y. Large time deposits totaled $1.48 trillion in 4Q'12, a decrease of 1.9 percent from 3Q'12 and a 7.3 percent decrease y-o-y from $1.6 trillion.

Financial and Nonfinancial 3-Month CP Interest Rates Flat

The interest rates for financial and nonfinancial CP remained flat in the fourth quarter of 2012. Financial CP's rate was 0.17 percent at the end of 4Q'12, which represents no change from 3Q'12 and 1 basis point (bps) lower than 4Q'11's 18 bps. The rate for nonfinancial CP was 0.20 percent in 4Q'12, unchanged from 3Q'12 and a 6 bps increase from 4Q'11's 0.14 percent.

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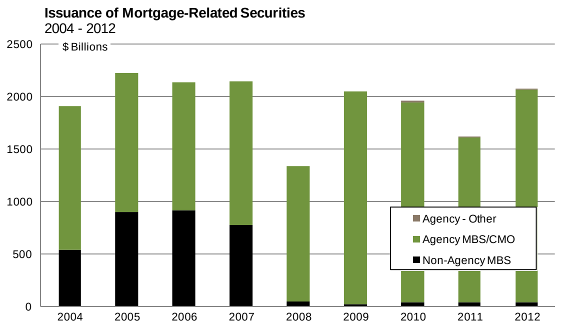
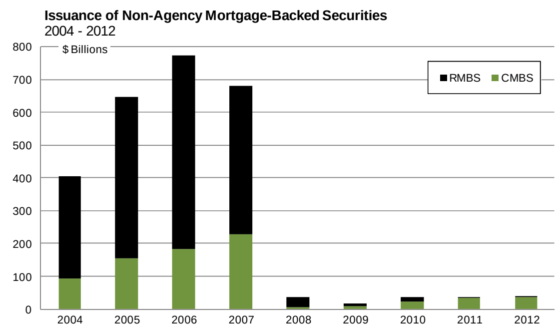
[6] As a reminder, repo data is provided by the primary dealers only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/tripartyrepo/margin_data.html.

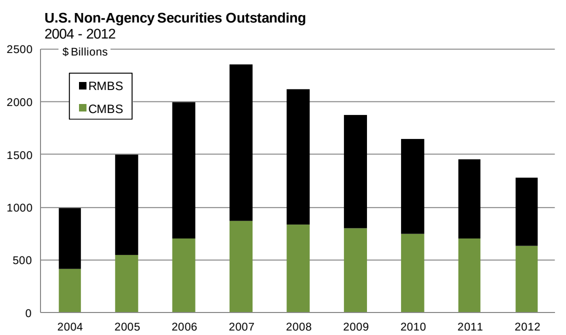
MORTGAGE-RELATED SECURITIES



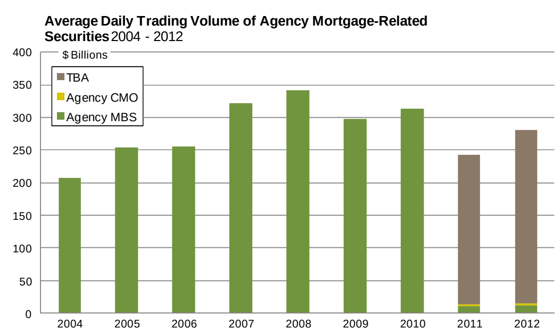
Sources: Federal Agencies, Thomson Reuters



Sources: Bloomberg, Thomson Reuters



Sources: Loan Performance, Fitch Ratings, Moody's, S&P, SIFMA, Thomson Reuters
In 2011Q1, ABS outstandings were revised and certain securities in non-agency were moved to ABS categories. Numbers have been restated to reflect changes.



Sources: Federal Reserve Bank of NY (pre-2011), FINRA Trace (2011 onward); 2011 data is a daily average beginning May 15, 2011 as Trace data starts May 2011.

Mortgage-Related Market

Issuance of mortgage-related securities, including agency and non-agency pass-throughs and collateralized mortgage obligations (CMOs), totaled $566.6 billion in the fourth quarter, a 4.8 percent and 23.6 percent increase, respectively, from 3Q'12 ($540.4 billion) and 4Q'11 ($458.6 billion). The surge in issuance is in part due to the rise of agency issuance, as well as an uptick in commercial mortgage backed securities (CMBS) issuance. Overall, the agency share of issuance declined slightly to 97.6 percent in 4Q'12, down from 98.6 percent in the prior quarter.

For the full year, issuance reached $2.06 trillion, a 27.6 percent increase from 2011, almost entirely driven by agency issuance; non-agency issuance increased a modest 5.9 percent in 2012 from 2011.

The housing market continued to recover during 4Q'12. The Case-Shiller 20-City Composite Index rose to 144.99 in November 2012, an increase of 1.2 percent from end-September 2012 and a 6.0 percent increase from the low reached in January 2012. Housing prices continued to recover in all housing markets except in New York, Boston, and Chicago during the fourth quarter, with the largest gains from the Las Vegas region, one of the hardest hit during the crisis. According to Freddie Mac, average rates on conventional 30-year mortgages continued to reach new lows, ending December at 3.35 percent, 5 basis points below the 3.4 percent end-September.

Agency Issuance and Outstanding

Agency mortgage-related issuance totaled $553.2 billion in 4Q'12, an increase of 3.9 percent and 22.2 percent, respectively, from 3Q'12 and 4Q'11. Issuance activity picked up slightly from Freddie Mac and Ginnie Mae, while Fannie Mae volumes generally remained unchanged from the prior quarter. Agency MBS outstandings increased by 0.5 percent in 4Q'12.

Non-Agency Issuance and Outstanding

Non-agency issuance totaled $13.4 billion in 4Q'12, an increase of 71.8 percent and 127.1 percent, respectively, from 3Q'12 ($7.8 billion) and 4Q'11 ($5.9 billion). The rise is primarily due to CMBS issuance, which composes the majority of non-agency issuance, totaling $13.1 billion in 4Q'12. Non-agency RMBS issuance was $0.3 billion in 4Q'12, a decline of 66.8 percent and 53.6 percent, respectively, q-o-q and y-o-y.

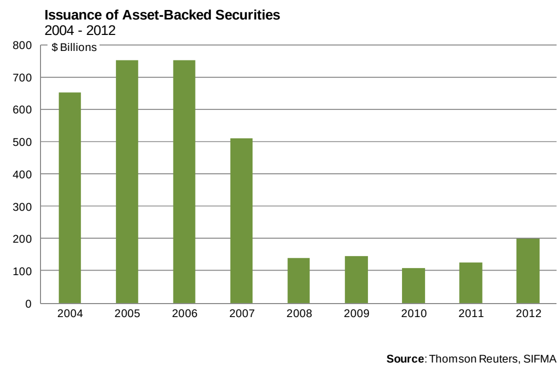
Non-agency outstandings continue to decline, with $1.28 trillion outstanding end-December, down 2.1 percent from 2011, comprising $635.9 billion in non-agency CMBS and $643.1 billion in non-agency RMBS.

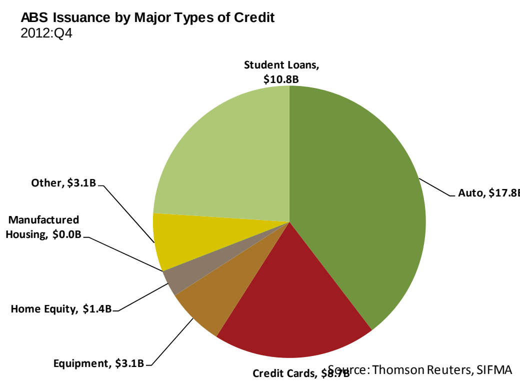
Due to the return of the CMBS market in 2012 and the new structures associated with recent deals, Markit officially launched CMBX 6 in late January, a synthetic CMBS index.

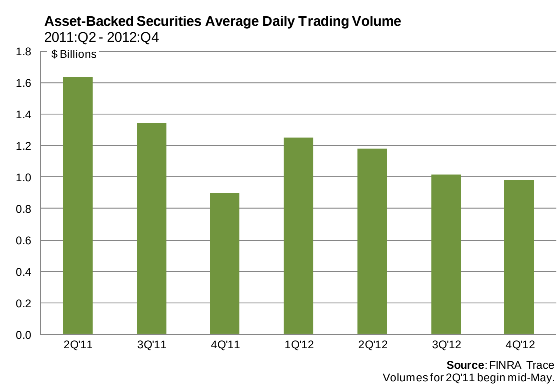
Trading Activity and Rates

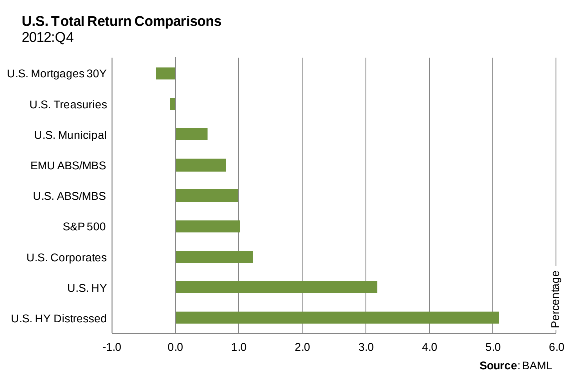
Average daily trading volumes of agency mortgage-related securities, including passthroughs, CMOs, and TBA, were $280.4 billion in 4Q'12, a decline of 15.3 percent from 2011. Average daily trading volumes of non-agency CMBS and RMBS in 4Q'12 were $1.9 billion and 2.3 billion respectively, an increase of 16.2 percent q-o-q for CMBS but a decline of 8.3 percent q-o-q for RMBS.

ASSET-BACKED SECURITIES









Asset-Backed Market Issuance and Outstanding

Asset-based securities (ABS) issuance totaled $44.8 billion in the fourth quarter, a decline of 12.4 percent from 3Q'12 ($51.2 billion) but a 48.3 percent increase from 4Q'11 ($30.2 billion). The auto sector continued to lead issuance totals with $17.8 billion (39.6 percent of total issuance in 4Q'12), followed by student loans ($10.8 billion, representing 24.0 issuance) and credit cards ($8.7 billion, or 19.4 percent). Outside of autos and credit cards, home equity experienced growth q-o-q (19.7 percent), largely due to securitizations of performing and non-performing legacy loans and servicer advances. The 'other' category experienced a decline of 45.7 percent, and included a container shipping deal, structured settlement deal, several timeshare deals, and a billboard securitization deal, among others.

On net, however, only student loan outstandings grew in the fourth quarter, growing by 1.0 percent from 3Q'12. Outstandings in the remainder of ABS sectors, however, continued to decline in the fourth quarter. Declines were most pronounced in the credit card category (5.0 percent), followed by structured finance CDOs (4.3 percent). Altogether, ABS outstandings declined by 1.0 percent from 3Q'12 and by 7.8 percent from 4Q'11.

Trading Activity Declines

Daily average trading activity in ABS declined slightly in the fourth quarter to $0.98 billion, a decline of 3.3 percent from the $1.0 billion traded daily in 3Q'12 but a 9.7 percent increase y-o-y.

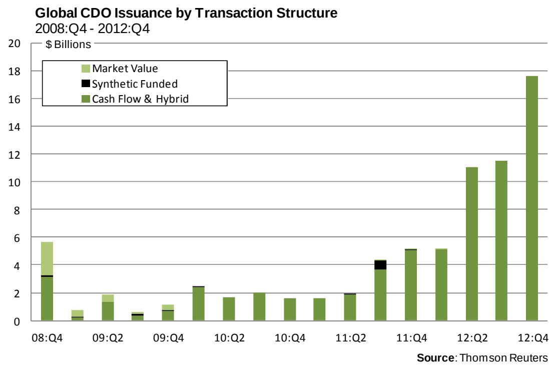
According to the Bank of America-Merrill Lynch indices, the total return for ABS and CMBS was 0.99 percent in 4Q'12, down from the 2.21 percent return in 3Q'12.

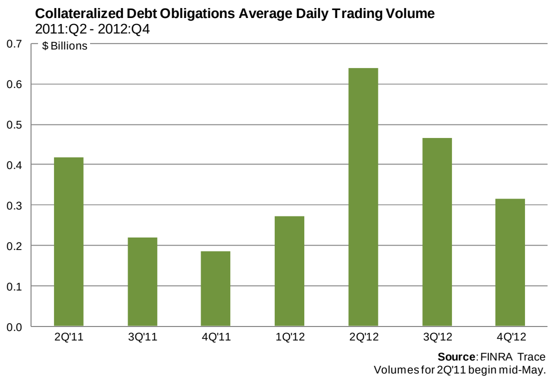
Global Collateralized Debt Obligations Issuance Rises

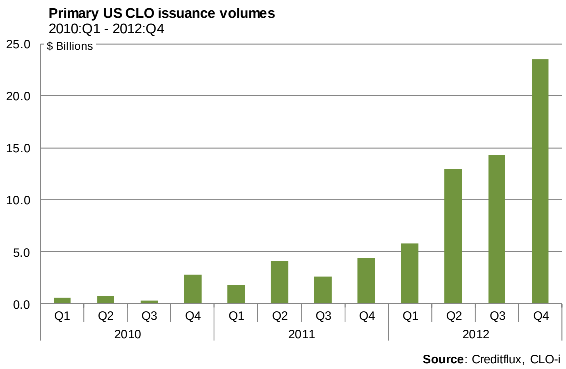
According to Thomson Reuters, global funded CDO issuance totaled $17.6 billion in 4Q'12, an increase of 52.8 percent q-o-q and a threefold increase from 4Q'11 ($5.2 billion). U.S. CLO issuance continues to drive almost the entire new global CDO volume in 2012. For the full year, CDO issuance volume was $45.4 billion, a 45.8 percent increase from 2011 and a new high since 2009.

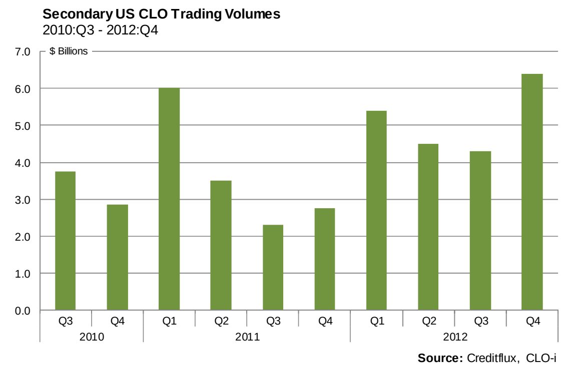
USD-denominated CLO outstandings increased for a third quarter in a row, growing by 7.5 percent from 3Q'12, driven by the rise in U.S. CLO issuance. However, outstandings of structured finance CDOs and other CDOs declined q-o-q.

COLLATERALIZED LOAN OBLIGATIONS[7]









Fourth Quarter Boom Lifts CLO volumes

A stellar year for the U.S. CLO market, the year 2012 ended with $56.6 billion of issuance, easily surpassing 2011 figures, when $12.9 billion was issued. The CLO market became increasingly active as the year wore on with total CLO volumes for each quarter surpassing the preceding quarter.

The fourth quarter of 2012 was itself the busiest since the financial crisis with CLO volumes reaching $23.5 billion – contributing 41.5 percent to the annual total, and were almost twice that for the entirety of 2011.

In total, 123 CLOs were priced in 2012, of which 46 deals were launched in the fourth quarter. Of the CLOs raised in 4Q'12, 13 were from managers entering the market for the first time in the year. A high concentration of these managers priced deals in December just before the market closed for business.

There was a trend in 4Q'2012 for managers to structure progressively larger CLOs. The average deal size in the fourth quarter was $500 million, compared to the third quarter when the average size registered at $433 million. Guggenheim took the title of the year's largest CLO in December by pricing a $1 billion CLO, Mercer Field.

Junior CLO spreads reach new tights as CLO spreads stabalise

Senior CLO spreads remained consistent in the 139 to 143 bps range through the fourth quarter, having rallied to 130 bps in May and then widened to 153 bps in August.

Spreads in the double-B sector were also relatively stable, beginning October at 700 bps and grinding in to an annual tight of 675 bps the following month. By the end of the year spreads widened to 725 bps.

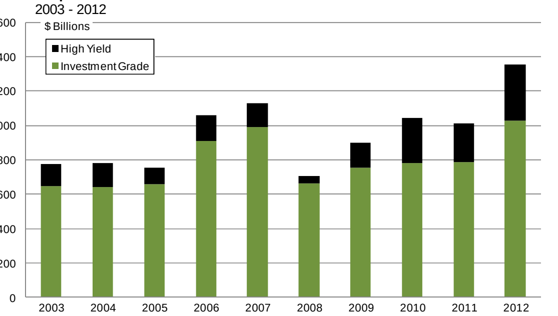
Secondary CLO volumes spike to reverse 2012 trends

In and amongst booming business in the primary CLO market, activity in the secondary market also increased. Trading volumes of U.S. CLOs in the secondary market rose to $6.4 billion, the highest in over two years. Prior to 4Q'12, secondary CLO volumes had been falling throughout the year, with $4.3 billion of CLO paper traded in the secondary market in 3Q'12.

[7] The author of the CLO section is Sayed Kadiri, Creditflux. For any questions, please contact Sayed Kadiri at sayed.kadiri@creditflux.com.

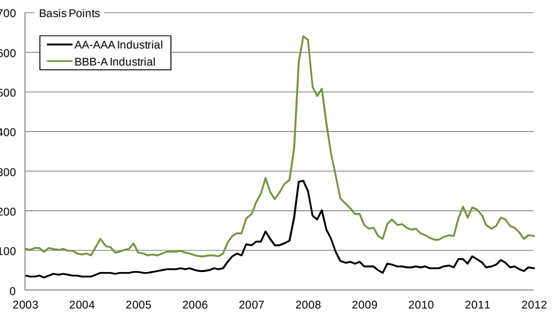
CORPORATE BOND MARKET

Corporate Bond Issuance[1]
2003 - 2012



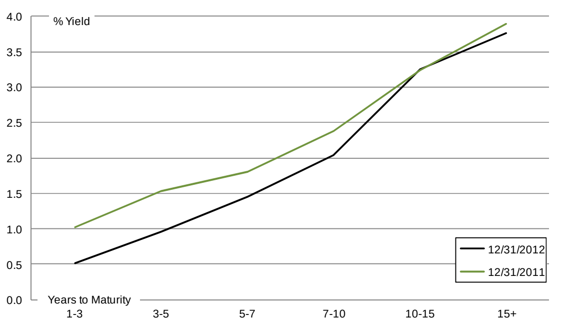
[1]Includes all nonconvertible debt, MTNs Yankee bonds, and TLGP debt, but excludes all issues with maturities of one year or less, CDs, and federal agency debt
Source: Thomson Reuters

U.S. Corporate Option Adjusted Spreads to U.S. Treasury - 1-10 Year
Dec. 2003 - Dec. 2012



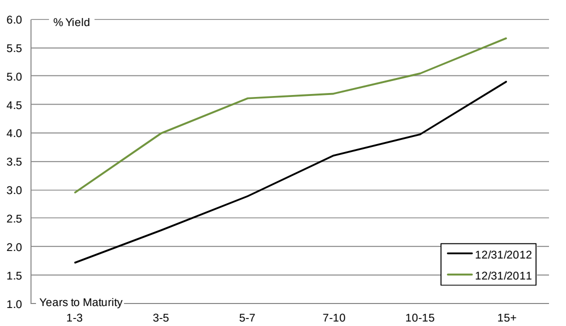
Source: Bank of America Merrill Lynch

U.S. Corporate: AAA - Yield Curves



Source: Bank of America Merrill Lynch

U.S. Corporate: BBB - Yield Curves



Source: Bank of America Merrill Lynch

Corporate Bond Issuance Increases

Corporate bond issuance totaled $364.6 billion in 4Q'12, 5.0 percent above the $347.1 billion issued last quarter and 88.8 percent above the $193.1 billion issued in 4Q'11. For the full year, $1.34 trillion in corporate debt was issued, 33.8 percent above the $1.01 trillion issued in 2011 and the highest annual issuance on record.

Investment grade (IG) bond issuance increased to $369.4 billion, a 6.3 percent and 69.4 percent increase, respectively, from $253.5 billion in 3Q'12 and from $159.0 billion in 4Q'11. Financial companies remained the leading industry in IG debt issuance but lost share; representing 36.7 percent of IG issuance (down from 43.7percent in 3Q'12), followed by energy and power with 16.3 percent (up from 12.6 percent in 3Q'12). In 2012, a record high of $1.03 trillion in IG debt was issued, 30.2 percent above the previous year's $788.1 billion.

After a quarterly record high of $93.7 billion in 3Q'12, HY bonds reached a new high of $95.2 billion in 4Q'12, up 1.6 percent from the previous quarter and an almost threefold increase from $34.1 billion issued in 4Q'11. HY debt issuance in 2012 was exceptionally high in 2012, with the top three issuance volumes by quarter from 2012 alone: 4Q'12 ($95.2 billion), 3Q'12 (93.7 billion) and 1Q'12 ($90.8 billion). In 2012, issuance of HY debt stood at $328.7 billion, 46.7 percent above 2011's issuance of $224.1 billion and 24.6 percent higher than the previous annual high of $263.7 billion in 2010.

Spreads Narrow; U.S. Default Rate Decreases Slightly

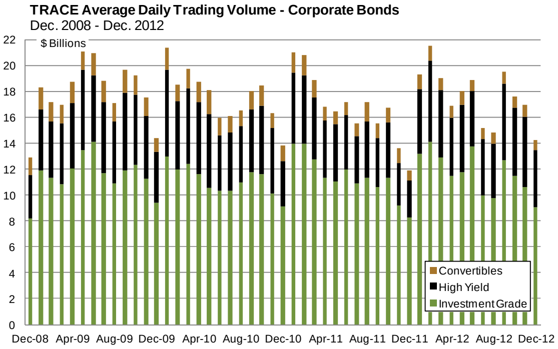
According to S&P, composite spreads for both IG and HY bonds narrowed by about 2.1 percent and 7.8 percent, respectively, in the fourth quarter of 2012. IG bond spreads finished the quarter at 183 bps, 2.1 percent lower than 187 bps at the end of 3Q'12 and 25.9 percent below its 5-year moving average of 247 bps. HY bond spreads also narrowed, finishing 4Q'12 at 566 bps, 7.8 percent below 614 bps at the end of 3Q'12 and 25.4 percent below its 5-year moving average of 759 bps. The cost of borrowing decreased significantly throughout the year: the spreads narrowed by 17.9 percent and 20.2 percent, respectively, for IG and HY bonds since January 1, 2012.

S&P's Global Fixed Income Research reported the global corporate default tally to be 82 issuers in 2012, surpassing the 2011 total of 53 issuers and the 2010 total of 81 issuers. Out of the 82 defaults, 47 were based in the U.S., which represents a slight annual increase in U.S. defaults from 40 in 2011. The top reasons for defaults remained unchanged as majority of defaults happened due to a missed interest or principal payment or bankruptcy filings. The 12-month default rate has decreased to 2.6 percent in December from 3.0 percent in September but up from 2.0 percent at the end of 2011, remaining well below the long-term average of 4.5 percent. Based on the future expectations and the likely path of the U.S. economy and financial markets, the S&P predicts that the default rate will rise to 3.7 percent by September 2013, up from 3.0 percent as of September 2012.

S&P US Corporate Rating Actions

	2012:Q4	2012:Q3	2011:Q4	2012	2011
Upgrades	47	28	54	230	293
Downgrades	88	87	111	329	281

Source: S&P Fixed Income Research



Source: FINRA

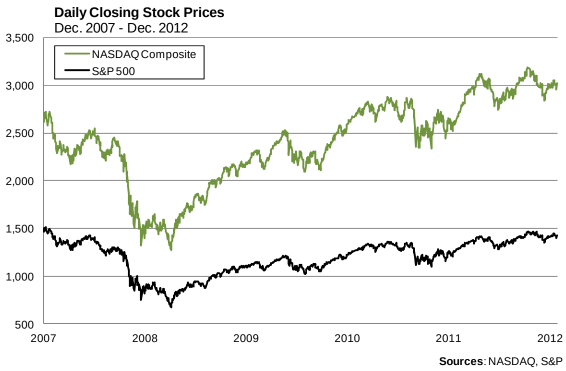
In 4Q'12 S&P Ratings Services downgraded 88 and upgraded 47 U.S. issuers, a better outcome than in previous quarter, when there were 87 downgrades versus 28 upgrades. For the entire 2012, the downgrade/upgrade ratio increased to 1.4 from 1.0 in 2011 as more issuers were downgraded and less were upgraded (summary of the numbers in the table to the left). December 2012 was especially bleak as there were 2.6 rating downgrades for every upgrade that month.

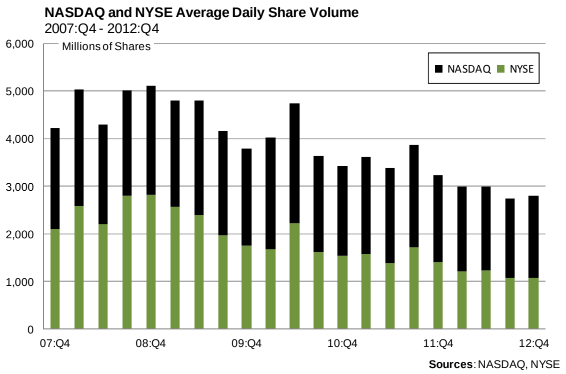
IG Trading Volume Decreases in 4Q'12

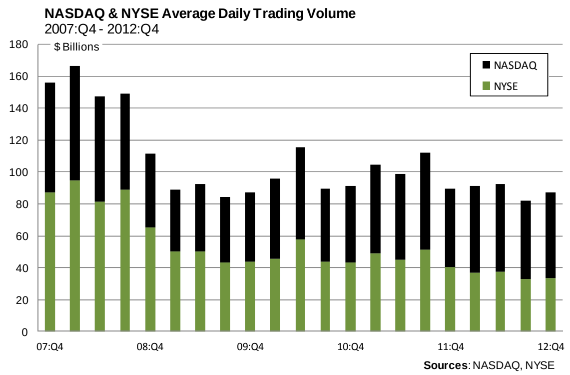
According to the FINRA TRACE data, trading volume for IG and convertible bonds (CVs) decreased in the fourth quarter of 2012 while the trading volume for HY bonds increased. IG average daily trading volume decreased to $10.4 billion, down 3.9 percent from $10.8 billion in 3Q'12 but up 8.0 percent from $9.6 billion in 4Q'11. The average daily trading volume of CV bonds decreased as well. In 4Q'12, CV bonds trading volume stood at $0.87 billion, 3.8 percent below 3Q'12's $0.90 billion and 12.6 percent lower than the average trading volume of $0.99 billion a year ago. HY average daily trading volume stood at $5.0 billion in 4Q'12, a 4.6 percent increase from $4.8 billion in the third quarter and a 45.1 percent increase from $3.5 billion in the same year-earlier period.

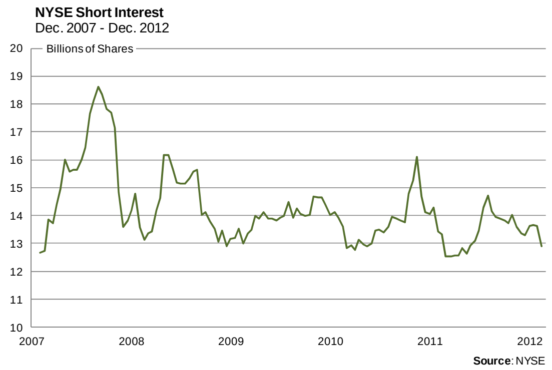
On monthly basis, as expected, December was a very slow month for corporate bond trading as the activity is usually seasonally slow during the holidays. For IG bonds, trading decreased to $9.1 billion in December, 14.6 percent decrease from $10.6 billion in November, while for HY bonds, trading decreased to $4.4 billion, a 19.1 percent decrease from $5.4 billion over the same period.

EQUITY AND OTHER MARKETS









The S&P 500 closed the fourth quarter at 1,426.19, a 1.0 percent decrease from the prior quarter but 13.4 percent up y-o-y. The NASDAQ Composite Index finished the year at 3,019.51, a 3.1 percent loss from 3Q'12 but a 15.9 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) decreased as well, finishing 4Q'12 at 13,104.12, a 2.5 percent loss q-o-q but a 7.3 percent increase from 4Q'11. Equity investors recorded slight quarterly losses as U.S. GDP growth decreased at an annual rate of 0.1 percent in 4Q'12 after a 3.1 percent growth in 3Q'12.

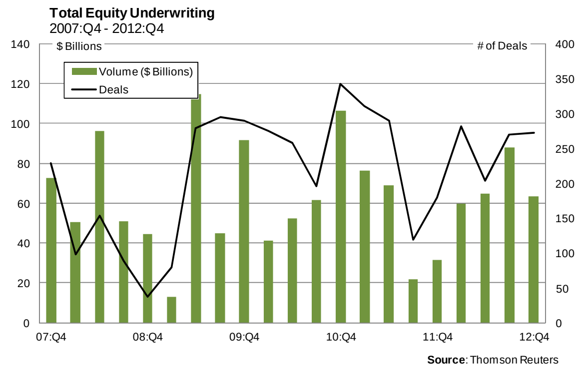
NYSE Daily Share Volume Lowest Since 3Q'00

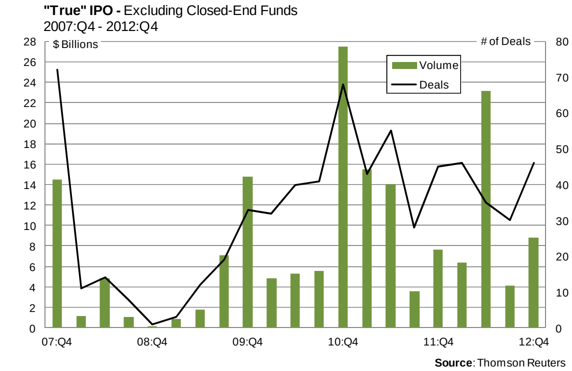
The New York Stock Exchange's (NYSE) 4Q'12 average daily share volume declined to 1.07 billion shares, 0.9 percent below the previous quarter's 1.08 billion and 24.3 percent below 1.41 billion in 4Q'11. The 1.07 billion traded is the lowest quarterly average daily share volume on NYSE since 0.96 billion shares in 3Q'00. The NYSE's average daily dollar volume increased slightly. The average dollar volume stood at $33.2 billion in 4Q'12, 1.3 percent above the previous quarter's $32.7 billion but 17.4 percent lower than 4Q'11's $40.1 billion.

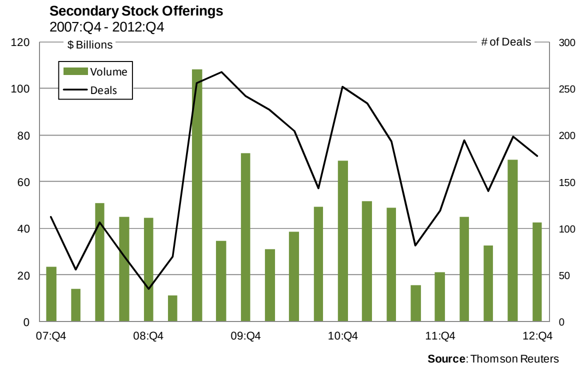
After recording the lowest average daily trading volume since 3Q'05 in 3Q'12, NASDAQ's average daily share volume increased by 4.5 percent to 1.7 billion shares in 4Q'12, but decreased by 4.9 percent y-o-y. The dollar trading volume increased to $53.9 billion in 4Q'12, up 9.0 percent from $49.5 billion in 3Q'12 and 9.1 percent above the 4Q'11's $49.4 billion.

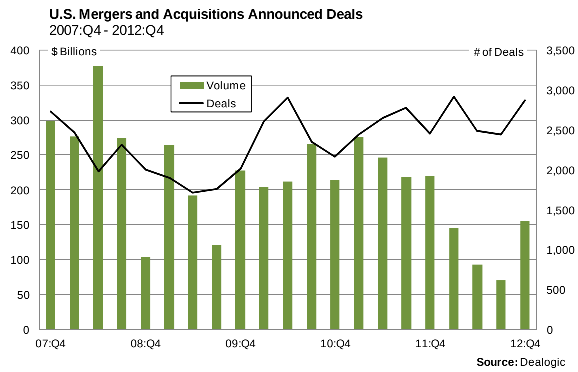
NYSE Short Interest Decreases

The number of shares sold short on the NYSE Group stood at 12.9 billion shares at the end of 4Q'12, down 5.0 percent from 13.6 billion at the end of previous quarter and 3.1 percent below 13.3 billion at the end of 2011. The short interest decreased steadily during the quarter and remained 9.0 percent below the 5-year average of 14.2 billion shares.









Equity Underwriting Decreases

Equity underwriting decreased after four consecutive quarterly increases. Underwriting reached $63.6 billion in the fourth quarter, 27.5 percent below the $87.8 billion in 3Q'12 but double the $31.5 billion in 4Q'11. Equity underwriting in 4Q'12 was 3.5 percent higher than the 5-year average of $61.5 billion. The number of equity underwriting deals increased in 4Q'12 to 272 deals, up 0.8 percent q-o-q and 51.1 percent y-o-y.

IPO Volume Doubles in 4Q'12

"True" initial public offerings (IPOs), which exclude closed-end mutual funds, doubled in 4Q'12 to $8.8 billion on 46 deals, a 115.7 percent increase from $4.1 billion and a 53.3 percent increase from 30 deals in the previous quarter. This large increase in volume came after relatively low quarterly volume in the previous quarter. The $8.8 billion in 4Q'12 was 6.1 percent above the 5-year average of $8.3 billion. According to Dealogic, the leading sector in IPOs in 4Q'12 was oil and gas (36.3 percent of the total), followed by real estate and property (19.6 percent) and computers and electronics (13.8 percent) sectors. In 2012, IPO volume reached $42.4 billion, 4.2 percent above $40.7 billion in 2011, largely due to the Facebook IPO in May 2012. Excluding the $16 billion Facebook IPO, activity remained subdued in 2012.

Secondary Offerings Decreases

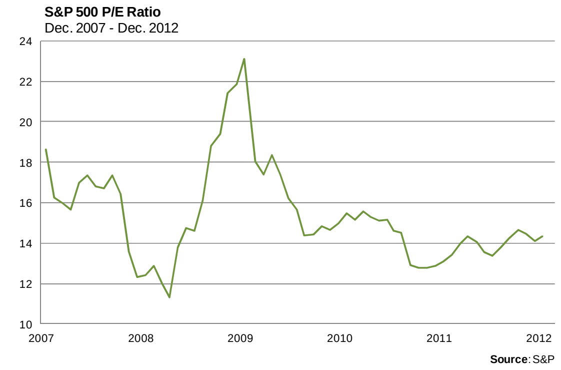
Secondary market issuance decreased to $38.8 billion on 178 deals from $69.4 billion on 198 deals in 3Q'12 (a decrease of 38.8 percent and 10.1 percent, respectively). The average deal value for the quarter decreased by 31.9 percent to $238.4 million from $350.3 million in the previous quarter. Year-over-year, secondary issuance increased by 101.2 percent in dollar volume and by 49.6 percent in number of deals.

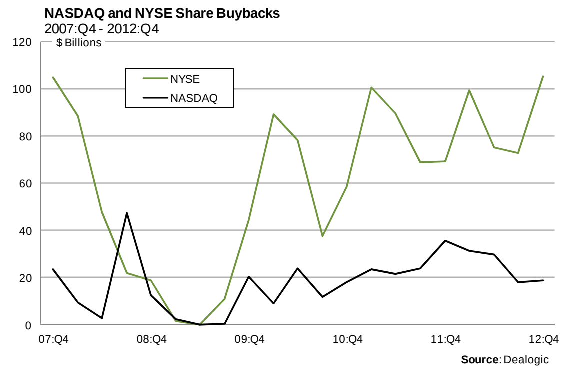
Announced M&A Volume Increases from Record Low

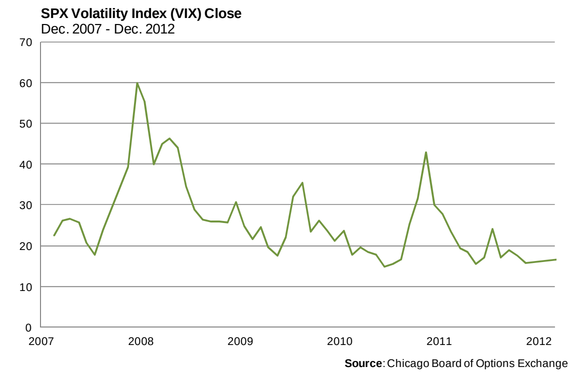
Despite the slowly improving U.S. economy, political gridlock in Congress, and lingering worries about the European sovereign debt crisis, the volume of M&A transactions in 4Q'12 more than doubled from the record low set in 3Q'12. Announced U.S. mergers and acquisitions (M&A) volume in 4Q'12 stood at $154.8 billion, up 119.5 percent from the previous quarter's $70.5 billion but down 29.6 percent y-o-y. The increase in M&A activity was partially caused by two financial sector mergers announced in November 2012: Stifel Financial Corporation & Keefe, Bruyette and Woods ($575 million)[8] and Leucadia & Jefferies ($2.76 billion). M&A volume remains 27.9 percent below the 5-year quarterly average of $214.7 billion. The number of deals increased by 17.6 percent, rising to 2,868 this quarter from 2,438 in 3Q'12, causing the average deal size to rise by 86.6 percent.

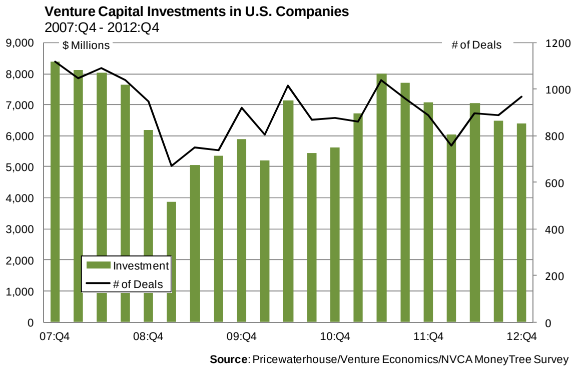
According to data from Dealogic, the amount "U.S. Inbound" M&A (money invested in U.S. companies by those outside the U.S. through M&A), nearly tripled to $84.0 billion from $33.1 billion in the previous quarter. Similarily, the dollar amount U.S. companies invested in other countries increased; American firms invested $53.7 billion in deals outside of the U.S., 51.9 percent above the $35.4 billion in 3Q'12.

[8] Stifel Financial Corp and KBW Inc announced that they have completed the merger on February 15, 2013.









P/E Ratio Stays Flat, Remains below Five-Year Average

The S&P 500's P/E ratio averaged 14.3 in 4Q'12, up 0.7 percent from the previous quarter's average of 14.2 and 6.8 percent below the 5-year average of 15.4. The P/E ratio was essentially flat q-o-q, but increased by 10.8 percent y-o-y and is 35.2 percent below the quarterly high of 22.1 in 4Q'09.

Share Buybacks Increase on NYSE and NASDAQ

The volume of corporate share repurchases on NYSE totaled $105.5 billion on 132 deals in 4Q'12, up 45.0 percent and up 10.9 percent, respectively from $72.8 billion on 119 deals in 3Q'12. The average deal size increased by 30.7 percent to $799.1 million in 4Q'12 from $611.3 million in 3Q'12. Year-over-year, NYSE share buybacks increased by 52.0 percent in dollar volume and by 7.3 percent in number of deals.

NASDAQ's buybacks stood at $18.8 billion in 4Q'12, a 3.9 percent increase from 3Q'12's $18.1 billion while the number of deals increased by 35.7 percent to 133 from 98 q-o-q. The average deal size decreased to $141.2 million from $184.3 million (down 23.4 percent). Year-over-year, NASDAQ share repurchases declined by 47.1 percent in dollar volume but increased by 6.4 percent in number of deals.

CBOE VIX Index Increases

The Chicago Board Options Exchange Volatility Index (VIX) increased by 0.7 percent to 17.54 in the fourth quarter of 2012 from 17.4 in 3Q'12. The index has showed a general downward trend since the beginning of October 2011. During the fourth quarter, a low of 14.3 was reached at the beginning of October and reached a high of 22.7 at end-December.

Venture Capital Declines Again in 4Q'12

Venture capitalists invested $6.4 billion in 968 deals in the fourth quarter of 2012, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA).[9] Quarterly investment activity decreased by 1.5 percent in dollar terms but increased by 8.8 percent in number of deals compared to the third quarter of 2012 when $6.5 billion was invested in 890 deals. Compared to 4Q'11, venture capital investments declined by 9.8 percent in dollar volume but increased by 8.9 percent in the number of deals. For the full year, venture capitalists invested $26.5 billion in 3,698 deals, a decrease of 10.0 percent in dollar volume and a 6.0 percent decline deal volume from the prior year. As fewer new venture funds are being raised, there is less capital available for new investments. Double-digit decreases in investment dollars across most industries, specifically the traditionally capital-intensive clean technology and life sciences sectors, offset the increases seen in the software sector in 2012. Additionally, investment stages shifted from seed to early stage in 2012 as venture capitalists overall began engaging with companies later in their life cycle than in previous years.[10] The software industry remained the single largest investment sector in 2012, with $8.3 billion in received funding, a 10.0 percent increase from 2011.

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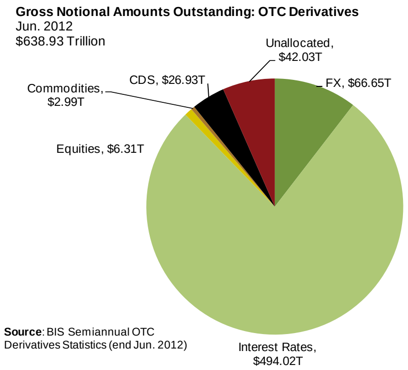
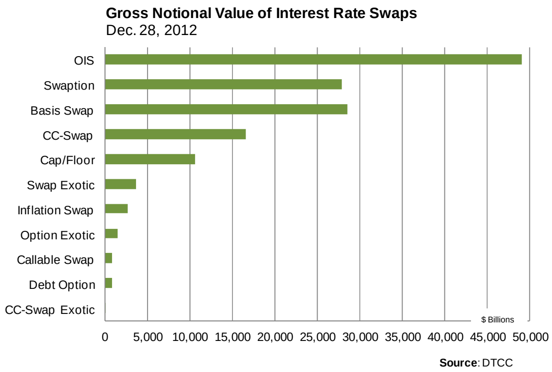
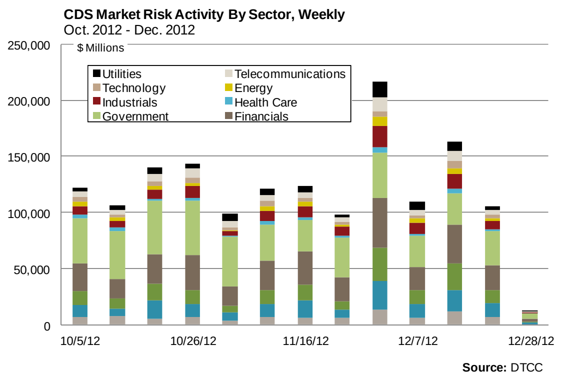
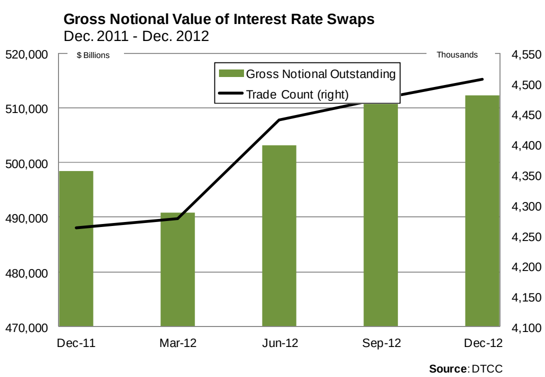
[9] PriceWaterhouseCoopers. Money Tree Report Fourth Quarter 2012 Press Release.
[10] Ibid.

DERIVATIVES









According to the most recent Bank of International Settlements (BIS) Semiannual Over-the-Counter (OTC) Derivatives Markets Statistics Report (end-June 2012; released November 2012), the gross notional amount outstanding of OTC derivatives totaled $638.9 trillion as of end-June 2012 (down 1.4 percent from end-December 2011)[11]. Interest rate contracts and other products (unallocated in the BIS report) experienced slight decreases, dropping to $494.0 trillion (down 1.9 percent) and $42.0 trillion outstanding (down 1.4 percent), respectively, from end-December 2011. Credit default swaps saw the largest decrease in gross notional outstanding during the same period, dropping 5.9 percent to $26.9 trillion. As the gross notional amount outstanding for all risk categories and instruments decreased, the gross credit exposure of outstanding OTC derivatives also decreased from end-December 2011 to end-June 2012, down 6.2 percent to $3.7 trillion.

Interest Rate Swaps[12]

According to DTCC data, the gross notional value of outstanding interest rate swaps (IRS) at the end of December 2012 was $512.2 trillion, relatively unchanged from end-September's $513.6 trillion. Decreases in callable swaps, cross-currency swaps exotic and swaptions were offset by increases in debt options, inflation swaps, forward rate agreements, and cross-currency swaps. The number of contracts outstanding increased slightly q-o-q to 4.5 million, with the largest increases in inflation swaps (7.6 percent q-o-q) and basis swaps (6.5 percent q-o-q). The largest decreases were found in callable swaps (17.5 percent q-o-q), cross-currency swaps exotic (13.0 percent q-o-q) and exotic options (10.4 percent q-o-q).

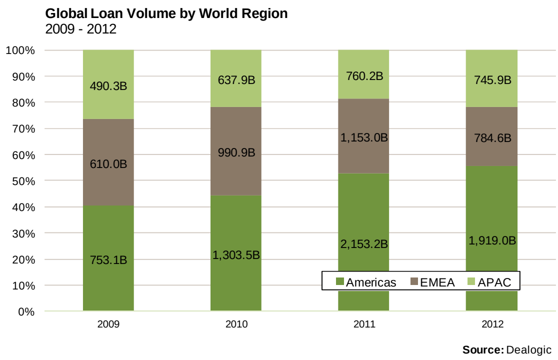
Credit Default Swaps

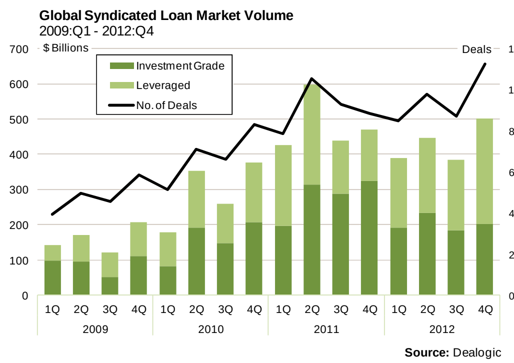
According to DTCC data, the gross notional value outstanding of credit default swaps (CDS), including single names, tranches and indices, decreased by 7.9 percent to $23.2 trillion end-December from $25.2 trillion end-September, and declined 10.7 percent y-o-y. Single name CDS outstanding decreased slightly on a gross notional basis by 5.1 percent q-o-q to $13.3 trillion from $14.1 trillion, while on a net notional basis, the outstanding value decreased by 6.5 percent q-o-q to $996 billion from $1.1 trillion.

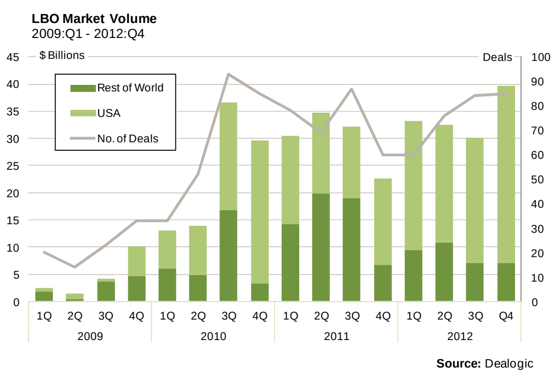
In the fourth quarter, net notional outstandings were concentrated in government and financial reference entities ($219.6 billion and $191.7 billion, respectively). CDS outstanding decreased on a net notional basis q-o-q in certain Eurozone sovereigns, including Germany and France, but increased in others, such as Italy and Spain. The most often referenced entities outstanding by gross notional exposure in the fourth quarter were concentrated in European sovereigns, as was the case in 3Q'12, led by Italy ($387.7 billion), Spain ($212.4 billion) and France ($163.1 billion). Aside from governments and financials, outstandings decreased on a net notional basis in both consumer services to (down percent 6.8 percent q-o-q, to $95.0 billion;) and consumer goods (down 5.3 percent q-o-q, to $94.0 billion).

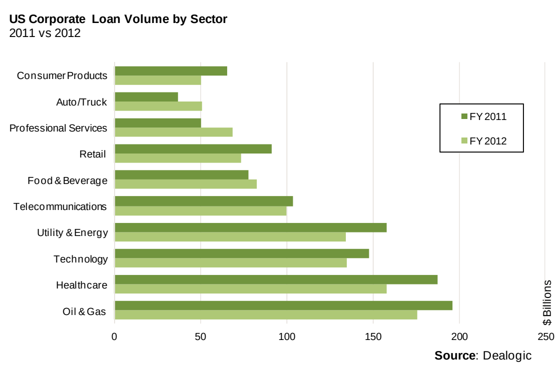
[11] According to BIS, data as of end-December 2011 is not fully comparable to previous periods due to an increase of the reporting population (as Australia and Spain reported for the first time).
[12] Beginning May 2012, DTCC took over responsibility for collecting/publishing OTC interest rate trades from TriOptima. As such, sizable increases in certain categories may be the result of different reporting and collecting procedures.

PRIMARY LOAN MARKET[13]









U.S. marketed syndicated loan volume totaled $1.7 trillion in 2012, down 11 percent on the $1.9 trillion in 2011.[14] Although U.S. syndicated loan volume decreased 11 percent in 2011, the number of deals increased to 3,816, which was the largest number of deals since 2007 (3,914 deals). Volumes in 4Q'12 increased 5 percent to $493.1 billion compared to $467.5 billion in 4Q'11, the highest fourth quarter volume since 2007 ($540.7 billion).

U.S. marketed loans accounted for 50 percent of the global loan volume in 2012, making it the third consecutive year-on-year increase and the highest share since 2004 (53 percent).

Regional Breakdown

The Americas accounted for 56 percent of global loan volume in 2012 with $1.9 trillion borrowed, up from its 52 percent share in 2011 ($2.2 trillion). $745.9 billion accounted for 22 percent of global loan volume, up from the region's 19 percent share during the same 2011 ($760.2 billion) period. EMEA lending accounted for a 23 percent share of global volume in 2012 ($784.6 billion), down from the 28 percent share during the same 2011 ($1.2 trillion) period.

Use of Proceeds

General corporate purposes volume totaled $664.4 billion in 2012 and accounted for 40 percent of U.S. syndicated loan volume, up from a 31 percent share during 2011 ($590.8 billion). Refinancing volume decreased 41 percent from $839.3 billion in 2011 to $490.9 billion in 2012. U.S. Spin-off loans totaled $28.9 billion in 2012, a large increase from 2011 ($9.2 billion) and the largest yearly volume on record.

Deal Types

Investment grade (IG) loans stood at $793.8 billion in 2012, down 27 percent from the $1.1 trillion borrowed during 2011. Average all-in pricing increased to 183 bps in 2012, up from 170 bps in 2011 and the first increase since 2009 (218 bps).

Leveraged loan volume of $887.6 billion accounted for a 53 percent share of U.S. marketed loans in 2012, the highest yearly proportion on record. Deal activity increased in 2012 to 2,371, up from 2,068 in 2011, also the highest level on record.

Corporate Borrowers

U.S. corporate loan volume fell to $1.4 trillion in 2012, a 12 percent decrease on the $1.6 trillion borrowed during the comparable 2011 period. The number of deals in 4Q'12 stood at 948, the largest number of deals per quarter since 4Q'97 (1,058 deals). The average tenor in 4Q'12 was six years and one month, a 37 percent increase from 4Q'11 (four years and six months) and the highest on record.

Oil & gas led all industries for the third consecutive year with a total volume of $175.9 billion. Although volumes decreased 10 percent from 2011 ($196.1 billion), oil & gas accounted for a 12 percent share of 2012 U.S. corporate loan volume ($1.4 trillion). Auto/Truck experienced the largest 2012 volume increase ($51.1 billion) among the top 10 industries, increasing 38 percent from

[13] The authors of the Primary Loan Market discussion are Douglas Launer and Joseph Mongeluzzi, Dealogic. For any questions, please email Joseph.Mongeluzzi@dealogic.com.
[14] Loan volumes excludes project & trade finance loan volumes.

full year 2011 ($36.9 billion) and moving up seven spots to the ninth largest sector. Professional services saw the second largest volume increase ($68.9 billion) of 36 percent from 2011 ($50.7 billion), jumping two spots to the eighth largest sector. Chemicals saw the largest share decrease, dropping from 4.4 percent in 2011 to 2.5 percent in 2012. The top 10 industries accounted for 73 percent of U.S. corporate lending volume in 2012.

Financial Sponsor & LBO Loan Volume

U.S. sponsor-related loan volume totaled $387.8 billion in 2012, up 18 percent on the $326.1 billion completed in 2011 and the largest volume since 2007 ($614.5 billion). U.S. syndication accounted for an 80 percent share of global sponsor-related volume ($482.7 billion) in 2012.

U.S. LBO loan volume in 2012 totaled $100.9 billion, a 68 percent increase on the $60.2 billion completed during full year 2011 and the highest yearly volume since 2007 ($387 billion). LBO loan activity, with 213 facilities completed in 2012, was the most since 2007 (427 deals). U.S. syndication of LBO loans in 2012 accounted for 75 percent of global LBO loan volume ($135.3 billion).

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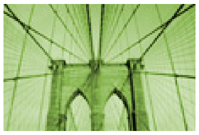

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