



September 30, 2014

FIA Principal Traders Group (FIA PTG) Equity Market Structure Position Paper

Overview of FIA PTG

FIA PTG is an association of more than 20 firms that trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG member firms serve as a critical source of liquidity to these markets, allowing those who use such markets, including individual investors, to manage their risks and invest effectively. FIA PTG members engage in manual, automated, and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. Across all these markets, FIA PTG advocates for open access, transparency, and data-driven policy.

Executive Summary

Earlier this year Securities and Exchange Commission Chairman Mary Jo White gave a major policy address in which she outlined areas where reforms to U.S. equity market structure should be considered. Chair White's speech provided a much-needed framework for public debate on U.S. equity market structure, and FIA Principal Traders Group is pleased to provide its views on this important subject.

We believe FIA PTG brings an important perspective to this market structure debate. We represent a vitally important part of the market ecosystem—the principal traders who actively participate in a wide range of financial and commodity markets. Our members include leaders in the field of automated trading, and firms that are just as comfortable using other methods of trading, including traditional open outcry. Our members use their own capital to trade and contribute substantially to the liquidity on which investors and hedgers rely.

As active traders in a variety of markets, we are students of market structure and we have a long track record of working with exchanges and regulators to improve market quality. We agree with Chair White that the quality of U.S. equity markets is already very high, but we believe that the time is ripe to consider changes that could raise it even higher.

This position paper sets out our views on several recommendations in Chair White's speech, including our views on specific issues such as market data, co-location, timestamps, order protection and pilot programs. These fit into a broader framework of principles: we support fair and open access, reduced regulatory incentives for excess fragmentation, less complexity, and greater use of data in market oversight and public policy.

Specifically, our recommendations include:

- **Improving transparency:**
FIA PTG supports improved transparency to the public into all operational aspects of trading venues, including exchanges, alternative trading systems (ATs) and dark pools. We believe in particular, that markets and investors would benefit from greater clarity and insight into order matching, venue services, and broker order routing practices.
- **Reducing regulatory incentives for market fragmentation:**
Regulatory policy, including Reg NMS, has subsidized the existence of more trading venues than would survive under normal competitive dynamics. This excess fragmentation in equity markets creates added complexity and increases costs for market participants. We propose to address this in a variety of ways, including by changing the pay-out formulas for the Securities Information Processors (SIP). We also encourage the SEC to review the concept of protected quotes under Reg NMS.
- **Increasing understanding of consolidated market data:**
FIA PTG supports transparency and education for investors into the SIP's role in the marketplace, as well as all commercial aspects of the SIP. We support transparency into the latency of consolidated feeds and efforts to increase confidence in the consolidated feed data. Further, we support exchange level rule changes that disclose how data feeds are being utilized.
- **Improving the current consolidated feed structure:**
FIA PTG supports efforts to increase the efficiency of the current consolidated feed structure including: introducing competition for consolidated feeds; enhancing incentives for competitive feeds; and improving the performance of the SIP.
- **Promoting fair access to markets:**
Technology has democratized market access, and we believe this should be preserved and protected. To ensure fair access to markets, we support exchange oversight of co-location and related connectivity services to ensure non-discriminatory terms and transparency to the public.
- **Enhancing the regulatory process:**
Industry participation is critical to successfully addressing the complexities of market structure reform. We urge the SEC to create a Market Structure Advisory Committee to facilitate dialogue and encourage industry engagement. We also support the use of empirical data in all aspects of policy making, and where appropriate, thoughtful, well-structured pilot programs to gather data on potential regulatory changes.

Above all, FIA PTG supports fair access, competition, and transparency. We believe these principles benefit all market participants, and are the foundation of a liquid and well-functioning marketplace. We encourage regulators to keep these overarching objectives in mind as they begin working on the specifics of market structure reform. We look forward to continuing to engage in this dialogue, and we will continue to work with regulators to address concerns and provide a better foundation for the public debate on equity market structure.

Preliminary Views of FIA PTG on a Review of Equity Market Structure

These views address issues raised by Chair White in her June 5, 2014 speech and may be qualified in response to the details of any proposed rule or policy statement issued by the SEC.

I. Transparency

FIA PTG supports a marketplace that promotes transparency to all market participants in all operational aspects of trading venues, including exchanges, ATSS and dark pools, including, but not limited to:

- **Trading Venue Order Matching:** Transparency into the process by which working orders (displayed and not displayed) are handled, matched, and executed on all trading venues, including:
 - matching algorithms used;
 - priorities one order may have over another;
 - order types available to market participants, including details on how each order type interacts with the market;
 - fees associated with executions by all participants for all trades on a trading venue; and
 - trade bust/adjust policies, including when they may be invoked and potential actions a trading venue may take.
- **Trading Venue Services:** Transparency into the services provided by trading venues to their participants, including pre- and post-trade risk controls, market data feeds, trade execution, co-location, and network connectivity.
- **Order Routing Practices:** Transparency for investors into routing decisions made and counterparties (when available) traded against by their agency brokers for individual orders; including:
 - payments received for their individual orders (as opposed to the aggregate reporting currently required); and
 - enhancement of Rule 606 of Regulation NMS disclosures to include order level disclosure.

a. Final Regulation SCI

FIA PTG supports Reg SCI final rules to the extent that most of the rules apply to exchanges, trading venues and other critical infrastructure and do not to extend to all registered broker-dealers (BDs). BDs are subject to requirements under Rule 15c3-5, which we believe ensures the spirit of proposed Reg SCI is applied to BDs.

Reg SCI should not take a one-size fits all approach and should distinguish regulatory requirements between exchanges and other non-exchange market participants, including smaller market making firms.

FIA PTG encourages the Commission to (i) fully analyze and clarify what the proposal will directly and indirectly require of exchange members and ATS participants, (ii) analyze the costs and benefits of such requirements, and (iii) consider and compare the costs and benefits of other measures that may achieve the Commission's goals in a more efficient way.

II. Market Fragmentation

The U.S. equity markets currently have 12 exchanges and dozens of ATSS.

Although venue competition has brought unquestionable benefits in terms of transaction costs and innovation, fragmentation has become excessive and introduced undue complexity to the marketplace. Regulatory policy, including Reg NMS, has facilitated the creation and sustainability of exchanges and other trading venues that could not have survived under normal competitive dynamics.

Additional exchanges impose a cost on all market participants. While robust competition and customer choice are important hallmarks of the existing market structure that should be protected, FIA PTG believes it is important that new platforms provide benefits to the market that justify the corresponding cost. FIA PTG supports the following views with respect to potential solutions to excess market fragmentation.

- SIP revenue should be distributed using a method that favors price discovery over quote generation.
- The SEC should review the concept of protected quotes under Reg NMS and the criteria with which it is administered. FIA PTG submits that, as an alternative to a wholesale change to Reg NMS, the SEC should consider providing quote protection for an exchange only after the exchange has obtained a certain percentage of market share for a prescribed period of time – to be continued only as long as the exchange maintains the required percentage of market share.

III. Market Data

a. The SIP

FIA PTG supports transparency and education for investors into the SIP's role in the marketplace as well as all commercial aspects of the SIP.

We support efforts to increase the efficiency of the current consolidated feed structure, including:

- Introducing a competitive landscape for consolidated feeds;
- Enhancing incentives for such competitive feeds; and
- Improving the performance of the SIP to closer to that of the direct market feeds.

We believe that data feeds for prices and executions at trading venues should be made available on a non-discriminatory basis to participants who desire them and support non-discriminatory and transparent pricing of such feeds.

b. Timestamp

FIA PTG supports transparency into the latency of consolidated feeds and efforts to increase confidence in the consolidated feed data. Specifically, we support consideration by the exchanges and FINRA of a timestamp in the consolidated data feeds, in which the timestamp:

- Is precisely accurate;
- Is coupled with service-level agreements around the use of a timestamp by each exchange; and
- Includes a well-defined standard of what it represents and its dependability.

c. Data Feeds

FIA PTG supports exchange level rule changes that disclose how data feeds are being utilized.

IV. Fairness: Co-location and Market Access

FIA PTG supports fair and open access to equity markets, including:

- Non-discriminatory pricing;
- Fairness of market access infrastructure, such that each exchange-provided service is assured of being the same for all of its users; and
- Transparency of co-location agreements.

For the following reasons we believe it is important to have the exchanges, overseen by the SEC in their capacity as self-regulatory organizations, provide co-location services:

- Volumes on the various equity markets are nearly all electronically traded and connectivity to matching engines is a critical element of market structure.
- Exchanges have robust testing and certification procedures to ensure that functionality and risk management controls meet pre-determined testing criteria.
- Exchanges oversee connections and latency measurements to facilitate the integrity of the market.
- Exchanges oversee the physical environment to attempt to ensure that the market is operating in a secure, protected and controlled manner.

V. Regulatory Approach

a. Market Participation

FIA PTG recommends the creation of a Market Structure Advisory Committee. Reviewing and making changes to the current equity market structure is a difficult and complex task. It is important for the SEC to hear from participants who are actively engaged in the U.S. equity markets and we encourage the Commission to include principal traders on the Advisory Committee.

b. Use of Pilot Programs

FIA PTG supports the use of pilot programs to test ideas for making changes to U.S. equity market structure and applauds the SEC for their continued use of data-driven decision making.

We think the following should be considered before launching any pilot program:

- Objectives should be clearly defined;
- Time periods, including beginning and end should be defined;
- Pilot programs should be conducted in rigid, single variable environments with tested propositions;
- Results should be conducive to rigorous analysis;
- Pilot programs introduce complexity to the marketplace and must be both constructed and introduced carefully; and

- Pilot programs are a cost to the marketplace so should be used efficiently. Cost benefit analysis should be considered when determining duration and scale.