Submitted Statement of

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and

Mr. Daniel Coleman, CEO, KCG and Member, SIFMA Board of Directors

On behalf of SIFMA, we appreciate the invitation to participate in today's roundtable. SIFMA's Market Structure Task Force, for which Mr. Coleman co-chaired a subcommittee, recently completed a comprehensive set of recommendations on equity market structure, and we are pleased to present those industry consensus recommendations on how best to improve our equity markets.

Before discussing our recommendations, it is important to remind the Committee that the United States has the deepest and most liquid markets in the world. Over the last decade, regulation, technological advancements and competition have created an equity market structure that is easier to access and far more affordable for investors, including retail investors. The result of decades of evolution is a strong market system that helps Americans achieve financial security and provides companies with access to the capital they need to grow and create jobs.

These same factors that have generally benefited investors –regulatory modernization, technological innovation, and competition – have also led to a market structure that is increasingly complex and fragmented. Much of the focus has been on speed of trading, the product of technological innovation. And while the markets are most certainly not "rigged," and are unquestionably less expensive in terms of commissions and spreads, this complexity and fragmentation has resulted in disparate treatment that appears to be undermining investor trust and confidence. Failure to address declining trust will ultimately undermine the market itself.

Building on decades of leadership on market structure issues and more than 14 comment letters over the past four years, SIFMA recently convened a broad-based task force of our diverse membership to develop a series of market structure changes that we believe will enhance transparency, provide for fair and timely access to market data, and address the complexity and fragmentation caused by rebates and order types. Further, we propose that regulators and regulation should also adapt to ensure stability and resiliency in the markets.

Regulation NMS, which went into effect in 2007, is premised on promoting fair competition among individual markets, while at the same time assuring that all of these markets are linked together, through facilities and rules, in a unified system that promotes interaction among the orders of buyers and sellers in a particular NMS stock.[1] Regulation NMS incorporated two distinct types of competition – competition among individual markets and competition among individual orders – that together contribute to efficient markets.

Over time, the requirements of Regulation NMS have resulted in a significant increase in the number of trading venues and led to an equity market system that is extremely fast and highly interconnected. Indeed, there are more than 10 public exchanges and dozens of off-exchange trading venues in the United States. Exchanges that were once operating essentially as public utilities are now for-profit entities with a legal duty to maximize profit to shareholders. With so many moving parts, it is critical for policymakers and market participants to continuously review market structure to ensure it continues working in the best interest of all investors and we strongly support the review this Committee is undertaking as well as the work of Chair White and the SEC.

As for SIFMA's contribution to the discussion, our recommendations fall under three areas:

1. Addressing Complexity and Fragmentation;
2. Promoting Fairness in Market Data Dissemination; and
3. Encouraging robust transparency and disclosure, for both retail and institutional investors.

Addressing Complexity and Fragmentation

Access Fees

SIFMA recommends that fees for accessing quotes at market centers be dramatically reduced, if not eliminated. Currently, brokers are legally required to route their orders to the exchange that is quoting the best price – so called "protected quotes" – yet exchanges charge relatively high fees for accessing these quotes: currently 30 cents for every 100 shares. These fees have distorted market pricing as they are a significant percentage of overall trading costs and are several times higher than the fees charged by off-exchange venues. As a result, brokers may avoid routing their orders to exchanges.

SIFMA recommends that the cap on access fees should be lowered to no higher than 5 cents/100 shares. To implement such an outcome, SIFMA recommends that the SEC amend Rule 610 of Regulation NMS. The access fees charged by exchanges and the associated revenue are in turn mostly rebated through price structures such as "maker/taker", which incentives liquidity providers to quote on an exchange by paying them a rebate when their

[1] *See* Securities Exchange Act Release No. 51808, 70 FR 37496 (June 29, 2005) (Regulation NMS Adopting Release).

order is executed. However, the resulting impact of maker/taker pricing structures has been increased complexity and the appearance of conflicts of interest. These developments have led to a proliferation of order types designed to avoid access fees and capture rebates that in turn has added complexity to the system.

By reducing or eliminating access fees, the economic incentives to route orders away from exchanges would be reduced. In addition, reduced access fees would lead to a reduction in order types that are designed to avoid exchange access fees, and would decrease the economic incentive to route orders based on based potential rebates.

Number of Trading Venues

Policymakers should also take steps to reduce the number of trading venues to which a broker dealer must connect. All broker-dealers engaged in a professional trading business are effectively required to connect to all exchanges in order to satisfy their obligations under the Order Protection Rule of Regulation NMS. However, the need to establish and maintain these multiple connections is costly and contributes to the risk of market instability.

Accordingly, the displayed quotations of a market center should be protected under Regulation NMS only if the market center executes a specified aggregate trading volume over a sustained period of time. In this regard, the SEC should amend the definition of "protected quotation" under Regulation NMS so that it applies only to the displayed quotations of a market center with one percent (1%) or more of the average daily dollar volume in all NMS stocks over a period of three consecutive calendar quarters. A market center would lose its protected quotation status if its volume fell below 1% for three consecutive calendar quarters. To be clear, any affected exchanges would continue to operate as such and enjoy associated benefits of exchange status such as market data revenue and regulatory immunity.

Changing the definitions of protected quotation and automated quotation would reduce the risk of market instability associated with the need to connect to multiple markets. At the same time, the new standards would allow smaller exchanges to develop innovative methods of attracting order flow and receive protected quotation benefits after achieving a reasonable level of market share.

In addition to access fees and venue proliferation, SIFMA further recommends that the SEC review whether certain order types contribute or create activity that should otherwise be discouraged; whether to reduce unnecessary and excessive order traffic; and how to spur the development of a standardized kill switch mechanism.

A highly interconnected, complex and fragmented marketplace requires recommendations to be considered in the aggregate. SIFMA's recommendations, when considered together, are designed to reduce unnecessary market complexity, and the risk of instability that is inherent in a highly fragmented, complex market system

Promoting Fairness in Market Data Dissemination

As a fundamental principle SIFMA believes that market pricing information from all sources - including the consolidated market data, direct feeds provided by the exchanges, and pricing that can be derived from execution data - should be distributed to users at the same time. Currently, the exchanges own and operate a centralized, public feed of the best market prices through the Securities Information Processors ("SIPs"). However, the exchanges also sell proprietary, direct data feeds that are not processed through the SIPs and therefore are available to subscribers before the SIPs feed.

The current SIP construct for distributing market data is outdated and in need of short-term and longer-term reforms. Specifically, in the short-term, it is imperative that the exchanges increase their investment in the SIPs to reduce the latency differences between the SIP feeds and the direct data feeds offered by the exchanges. The current structure creates disincentives to improve the SIP quality because the very same exchanges who operate the SIP feeds also sell data products that compete with the SIPs. The SEC should direct the exchanges to improve the SIPs so that they provide the fastest commercially available services for data aggregation and distribution.

Over time, the central SIP structure should be replaced with multiple processors that could be any commercial entity that meets established standards for operation. These processors would distribute public market data and compete on performance and cost to better serve the marketplace.

In addition, the existing governance structure of the SIPs is ineffective and must be modified. Given the importance of market data distributors as critical industry utilities, the SIPs should have governance standards consistent with the fair representation standards applicable to the SROs themselves, as well as independence standards consistent with the "Best Practices" for public companies. In particular, the SIP operating committees should include direct industry and public participation. Further, the SIPs should operate with much greater transparency than the SIPs do now and provide public disclosure of operational performance and audited financial statements. These steps would help assure that the SIPs operate for the benefit of the public good, not just for the benefit of the participating SROs.

Transparency & Disclosure

Robust transparency and disclosure for both retail and institutional investors must be encouraged. Today's markets are extremely transparent by rule and practice, but SIFMA believes market participants can do even more to help investors understand how their

orders are routed and executed. Market participants should provide investors with better disclosure of relevant information in a standard, easily understood format.

As a first step, the SEC should direct the exchanges to provide standardized disclosure of their execution volume through both dark and lit orders. In addition, we agree with SEC Chair White that FINRA's reporting and disclosure requirements for ATSs should be expanded to include all off-exchange broker venues. We also believe that ATSs should publish the Form ATS and make their forms available on their websites.

With retail investors in mind, we believe broker-dealers should provide public reports of specific order routing statistics and metrics, which could be leveraged from metrics currently reported pursuant to Rule 605. Providing this information in an accessible and easy to understand format would help retail investors better understand how markets work and enable them to compare performance among brokers, ultimately increasing their confidence in the markets.

Turning to institutional transparency, SIFMA recommends that brokers provide institutional customers with standardized venue execution analysis reports. Additionally, SIFMA recommends that brokers publish on their websites, a standardized disclosure report that provides a overview of key macro issues that are of interest to clients (e.g. venues accessed, order types used on exchanges, market data structure). These recommendations are consistent with SEC Chair White's proposal in this area, and we look forward to working with the SEC and with other industry groups to develop a workable, standardized disclosure template for institutional customers.

Conclusion

The U.S. equity markets are dramatically different than they were just a few years ago. As we have for decades, SIFMA and its members are engaged in the public debate over the health and fairness of our equity markets and have put forward specific, commonsense solutions to bring greater trust and confidence to our system. We urge Congress and the SEC to take a good hard look at our recommendations and to continue this deliberative review of our market structure.