RESEARCH

Insights

The 2023 Market Structure Conference Debrief

Perspectives & Key Themes from Market Participants on Equities and Options

November 2023

Recently, SIFMA hosted our annual Market Structure Conference, with a full day dedicated to listed options and equities. Across the two days, we gained insights into top-of-mind topics for market participants. Inside this note, we recap just some of what was seen and heard, including:

- **The Industry Outlook** – Equity markets update, plus views from the buyside such as top business priorities for firms; options market update, key trends such as zero-days-to-expiration options (0DTE); also includes pre conference survey results on market statistics, macro themes, and economics trends.
- **The Regulatory View** – Markets are now considering six major rule proposals which could significantly impact equity and options markets (Rule 605, tick sizes, best ex, auctions + volume tiering + predictive data analytics). Concerns include the volume and speed of proposals, the complexity they introduce, and the potential for unintended consequences. The SEC did not analyze how the different proposals would interact with each other, i.e. interconnectedness. Timelines for implementation of the many rules are another area of concern for market participants, especially with 195 days to the go date for the transition to T+1 settlement.
- **More on Market Themes** – The focus is on trends in retail trading for both equities (ETFs, 24-hour trading, fractional shares, sub-dollar stocks) and options (growth in trading of 0DTE).

To see details from topics SIFMA has covered throughout the year, please see SIFMA Insights at: www.sifma.org/insights

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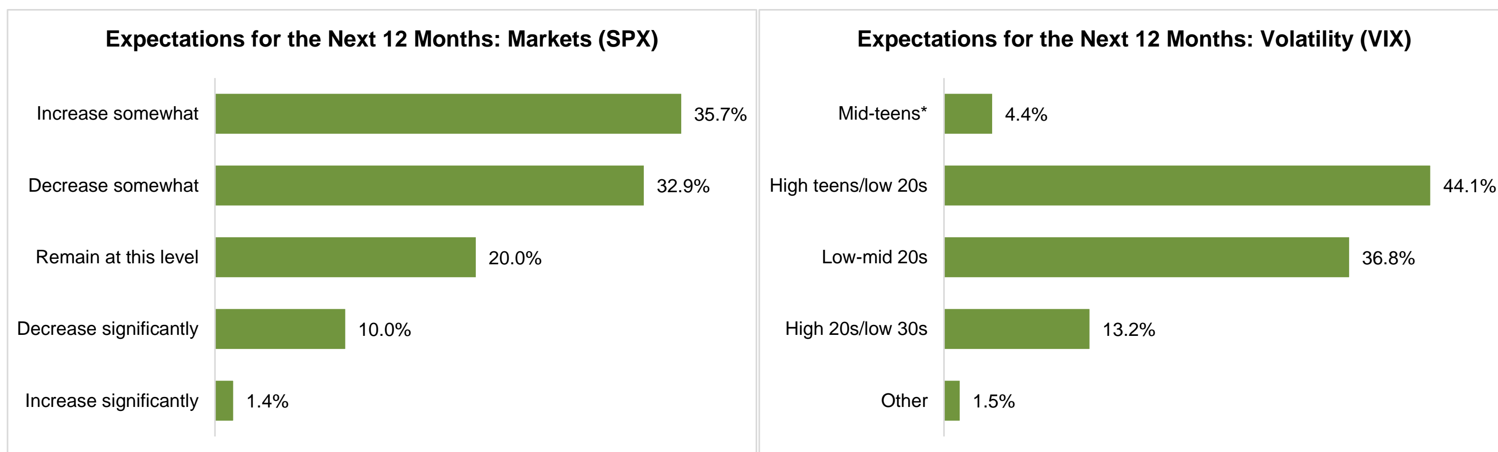
The Industry Outlook

Market Touchpoint: Markets & Volatility

Our pre-conference survey sought to gauge respondents' thoughts around market performance (price of the S&P 500 index) and volatility (the VIX). We highlight the following in respondents' perspectives for the next 12 months:

- Markets (SPX Index, 4,227.09 YTD through October)
  - 35.7% expect markets to increase somewhat
  - 32.9% expect markets to decrease somewhat
- Volatility (VIX Index, 17.55 YTD through October)
  - 44.1% expect volatility to be in the high teens to low 20s range
  - 36.8% expect volatility to be in the low to mid 20s range
- In short, expectations are for volatility to remain about the same but markets to slightly increase

Survey Questions: Over the next 12 months, do you expect markets – in terms of the price of the S&P 500 index – to? Over the next 12 months, what do you expect to be the new normal for the VIX?



Source: SIFMA Insights pre-conference survey[1]
Note: * denotes the historical level

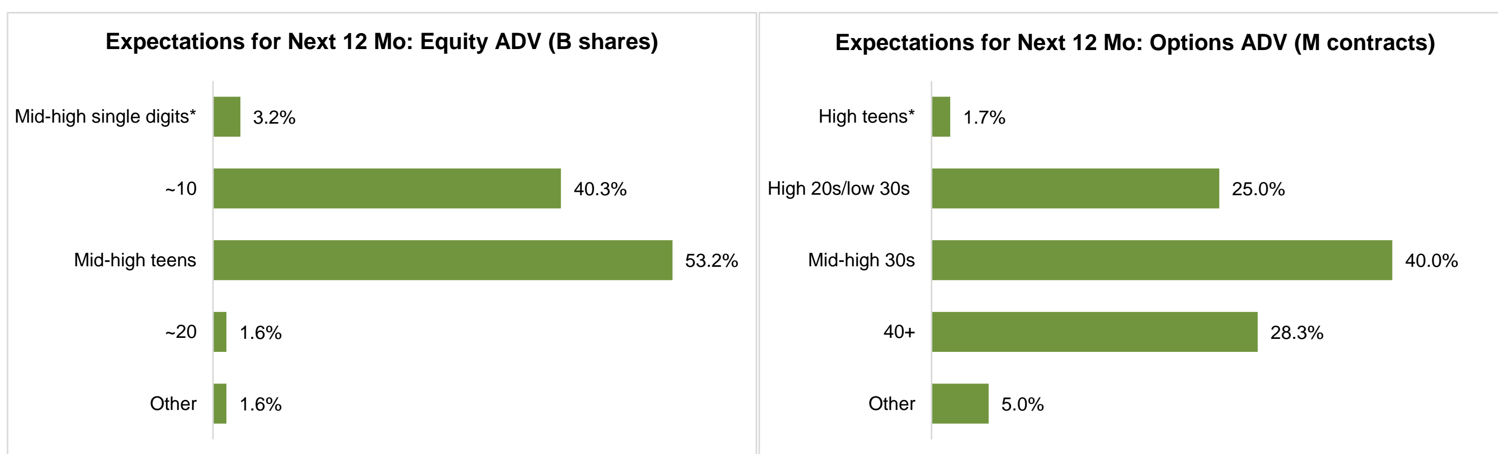
[1] The pre-conference survey was in the field from October 23 to October 30. This survey was conducted prior to the November 8 ransomware attack on Industrial and Commercial Bank of China (ICBC) Financial Services' New York operations.

Market Touchpoint: Trading Volumes

Our pre-conference survey sought to gauge respondents' thoughts around average daily trading volumes (ADV) for both the equities and the multi-listed options markets. We highlight the following in respondents' perspectives for the next 12 months:

- Equity ADV (11.0 billion shares YTD through October)
  - 53.2% estimate mid to high teens range
  - 40.3% estimate around 10 billion shares
- Multi-Listed Options ADV (43.4 million contracts YTD through October)
  - 40.0% estimate mid to high 30s range
  - 28.3% estimate above 40 million contracts

Survey Questions: Over the next 12 months, what do you expect to be the new normal for equity ADV? Over the next 12 months, what do you expect to be the new normal for multi-listed options ADV?



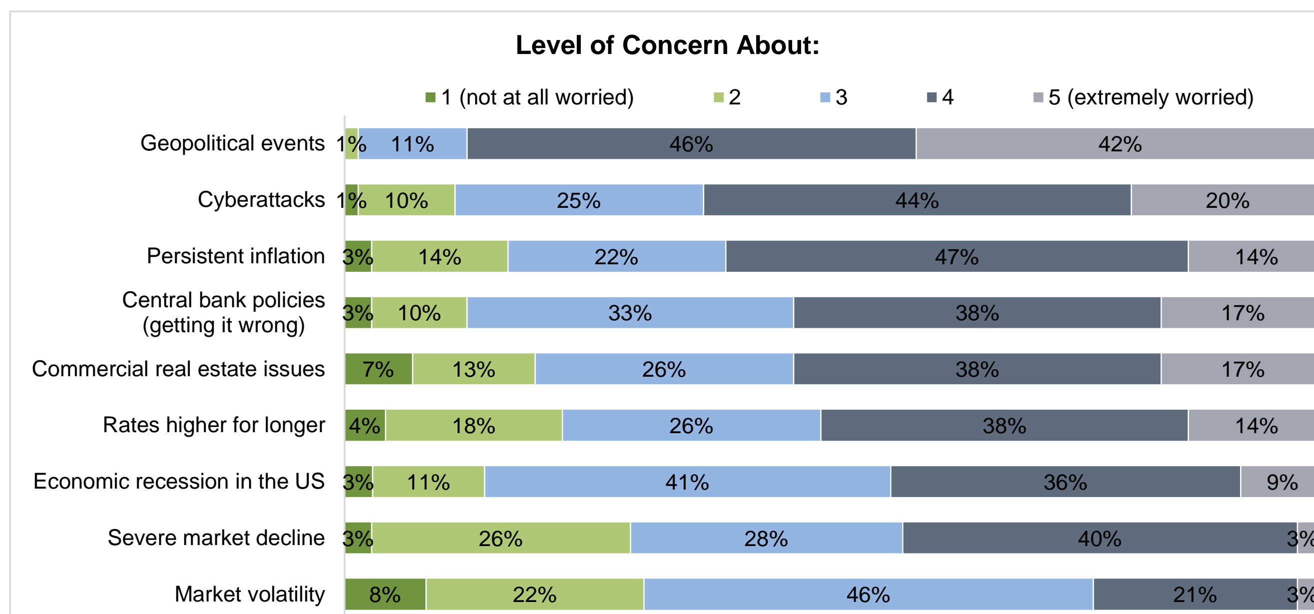
Source: SIFMA Insights pre-conference survey
Note: * denotes the historical level. Other, equities = Not sure. Other, options = Not sure/no insight

Market Touchpoint: Macro Themes

Our pre-conference survey sought to gauge respondents' concerns around current geopolitical, economic and market events and trends. We highlight the following in respondents' perspectives on key concerns, ranking responses by the aggregate level for #5, extremely worried, and #4, worried, responses:

- Geopolitical events, with 41.7% of respondents extremely worried and 45.8% worried
- Cyberattacks, with 19.7% of respondents extremely worried and 43.7% worried
- Persistent inflation, with 13.9% extremely worried and 47.2% worried

Survey Question: How would you rate your level of concern about? (on a scale of 1-5 where 1 = not at all, 5 = extremely worried)



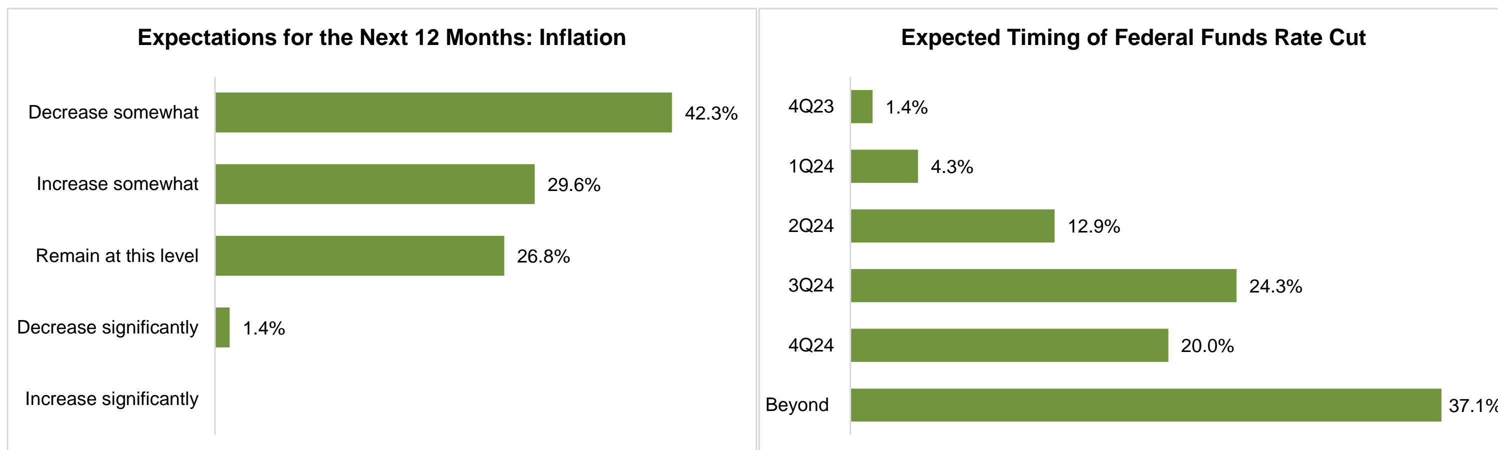
Source: SIFMA Insights pre-conference survey

Market Touchpoint: Economic Themes

Our pre-conference survey sought to gauge respondents' thoughts around macroeconomic events and trends. We highlight the following in respondents' perspectives on key concerns:

- Respondents expect inflation for the next 12 months to decrease somewhat, 42.3% of responses, followed by 29.6% expecting inflation to increase somewhat
- 37.1% of respondents expect the timing of Federal Funds Rate cut to be beyond 2024, followed by 24.3% expecting the cut to happen in 3Q24

Survey Questions: What are your inflation expectations for the next 12 months? When do you expect the Fed to cut rates?



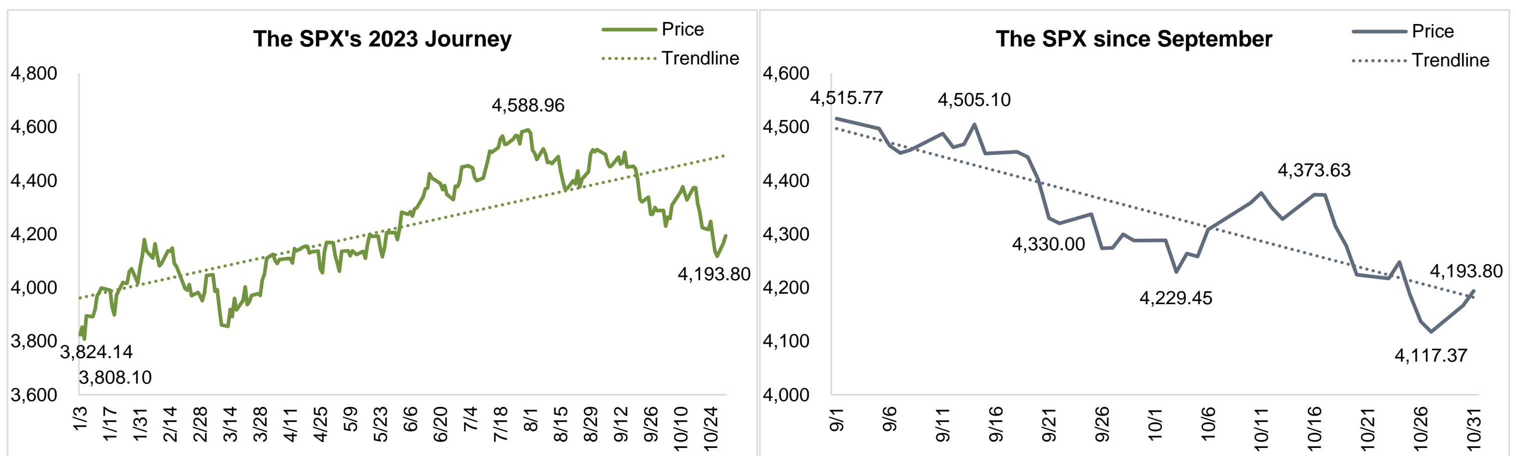
Source: SIFMA Insights pre-conference survey

Equity Markets

Equity volumes remain elevated at:

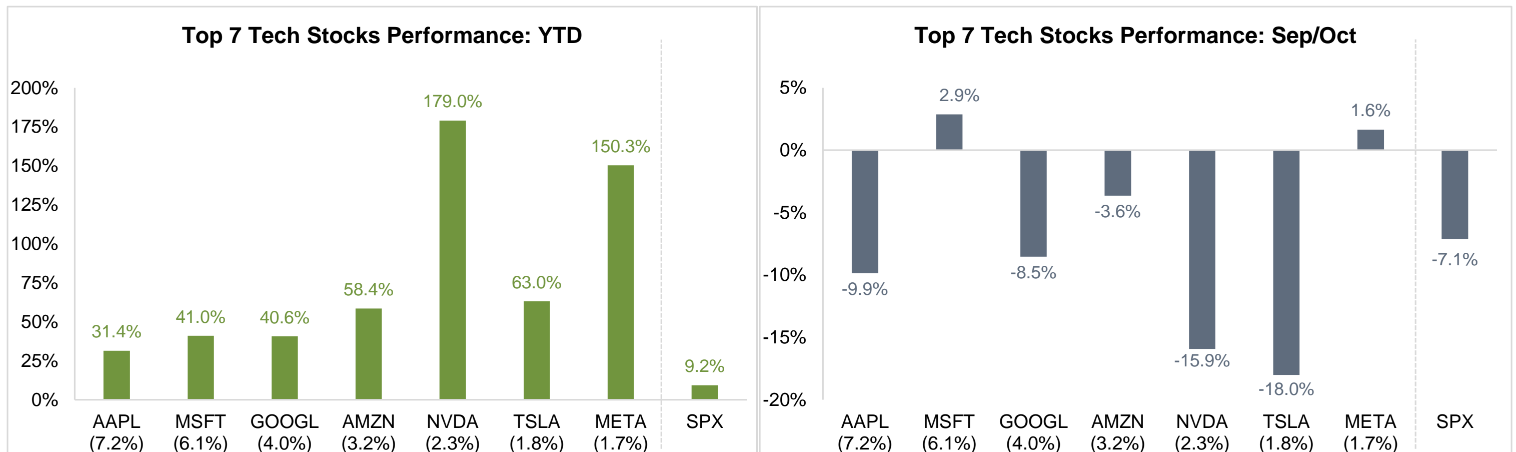
- YTD (through October) 11.0 billion shares
- October 10.6 billion shares
- We note that there are currently 16 exchanges

While the S&P 500 index (SPX) remains positive for the year, +9.2% YTD (as of October 26), it took a downturn in September which continued through October, -7.1%. If you look at SPX performance YTD through August, it was up 17.4%. The index lost 8.2 pps over just a few months.



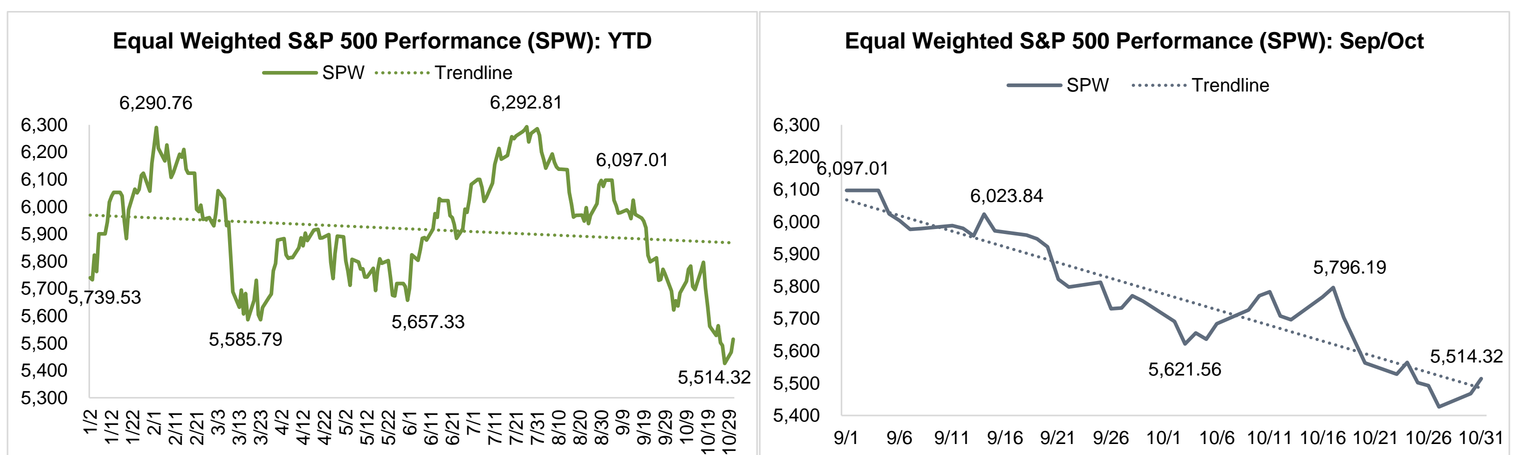
Source: Bloomberg, SIFMA estimates (as of October 26)

There are seven stocks driving the performance of the SPX, representing 26.4% of the total index market cap. YTD these stocks are positive – with the lowest performer Apple (AAPL) still up 31.4%, 3.4x the total index. However, these stocks also turned negative in September, with only Microsoft (MSFT, +2.9%) and Meta Platforms (META, +1.6%) positive.



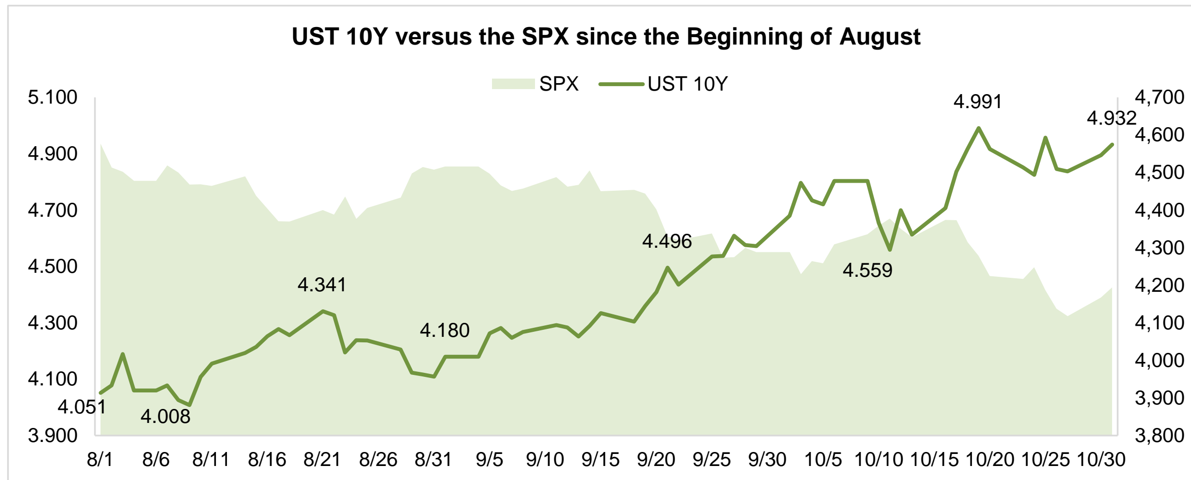
Source: Bloomberg, SIFMA estimates (as of October 26)

The SPX is a market cap weighted index, meaning the higher market cap stocks will have a greater impact on total index performance. Looking at the equal weighted version of the S&P 500, the SPW, it is now down YTD (as of October 26), -3.9%. Like the SPX, the SPW also took a turn in September. If you look at SPW performance YTD through August, it was up 5.8%. This version of the index lost 9.8 pps over those months. The SPW has underperformed the SPX all year. On a YTD through August basis, the SPX performance was 3.0x the SPW.



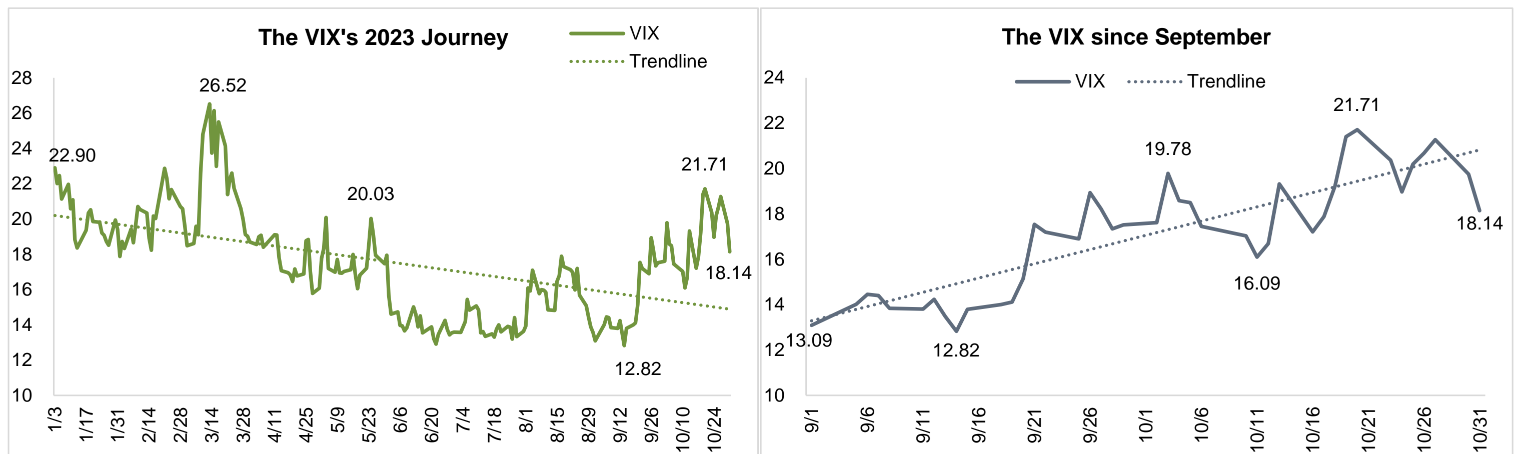
Source: Bloomberg, SIFMA estimates (as of October 26)

What happened in September? As the 10-year Treasury spiked, markets fell. The 10-year was up +21.7% since the beginning of August (through October 26), with a sharp upturn starting in mid-September. Over the same time period, the SPX reversed, -8.4%.



Source: Bloomberg, SIFMA estimates (as of October 26)

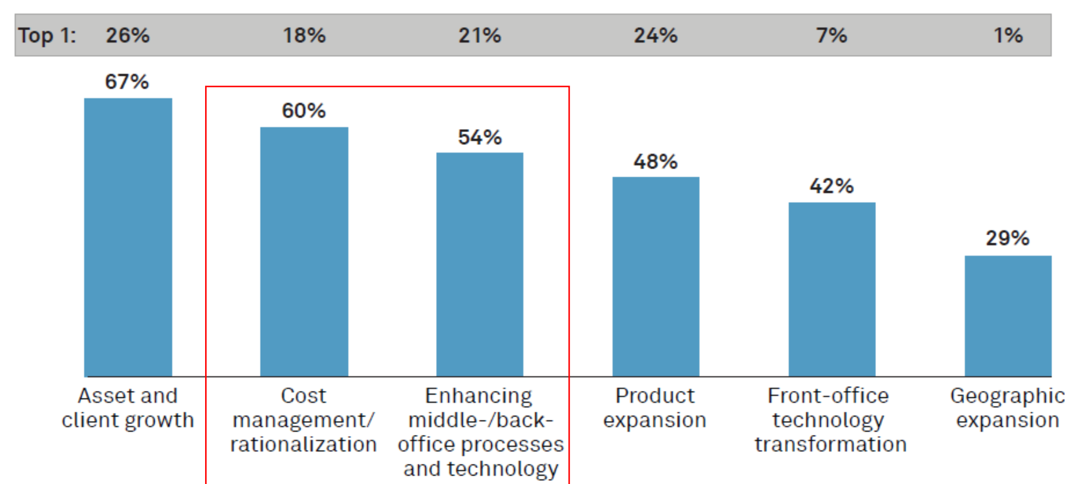
Finally, we look at volatility. The VIX displayed a reverse pattern of the SPX, picking up in September. While the VIX was -20.8% YTD through October 26, it was -40.7% YTD through August. The index was +38.6% in the September/October time period.



Source: Bloomberg, SIFMA estimates (as of October 26)

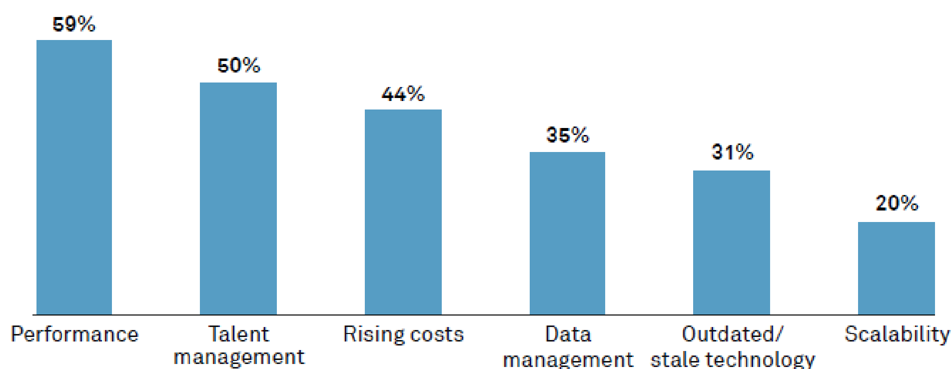
Next, we looked at Coalition Greenwich data[2] to analyze what is top of mind for the buyside from the equity trading perspective. We begin by laying out the top business priorities for firms. Asset and client growth are top priorities for two-thirds of respondents, with 60% emphasizing cost management and rationalization. Around half of the respondents are focusing on enhancing middle/back-office processes and technologies. Narrowing in on the red box, these two factors seem to be – on paper at least – in opposition to each other.

However, this may not be the case. Perhaps, it is really a shift of money to make sure the firm is positioned well from a technological perspective. They are investing in solutions to address trading workflow challenges and improve operational efficiency. While optimization helps control technology and other costs, it doesn't necessarily mean reducing overall technology expenses. Instead, resources are reallocated to increase efficiency in a cost-effective manner.



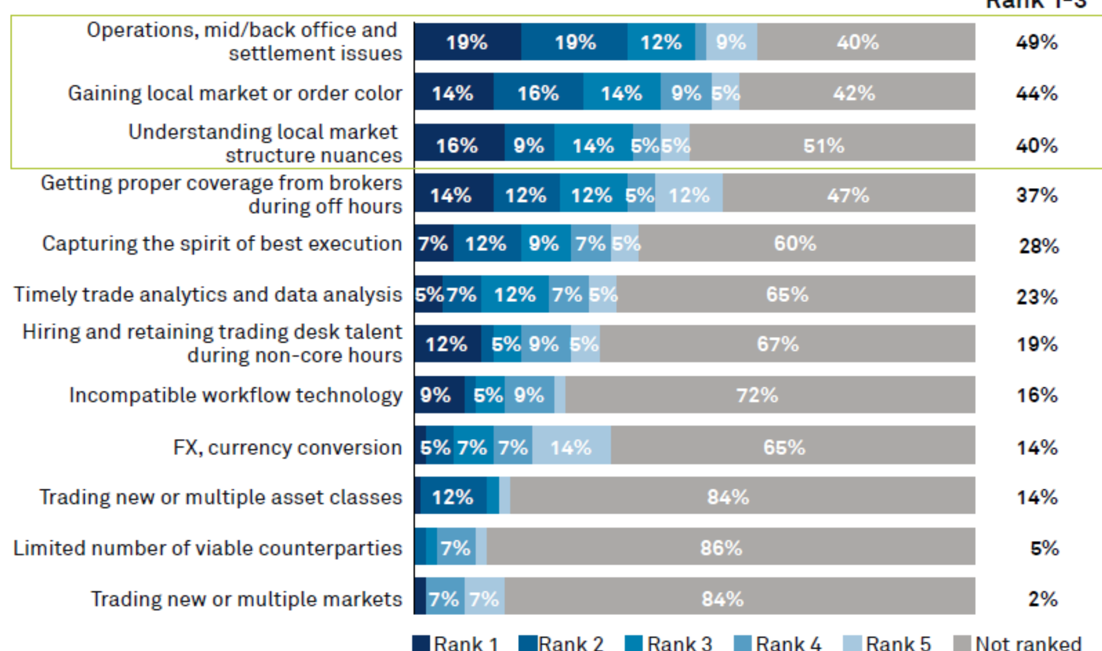
[2] Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry. https://www.greenwich.com/market-structure-technology/trading-technology-unveiled

After analyzing buyside firms' strategic priorities, we identified the top internal challenges to achieving these goals. According to Coalition Greenwich research, at 59%, the most pressing concern is performance, which is not surprising given the recent volatility across many asset classes. This was followed by 50% talent management and 44% rising costs. Talent is key to scaling to demand, but hiring and retaining is difficult. Inflation and rising interest rates have driven costs up, while investors demand ever lower fees. Interestingly, the outdated/stale technology and data management buckets feed back into the technology improvements under strategic objectives.



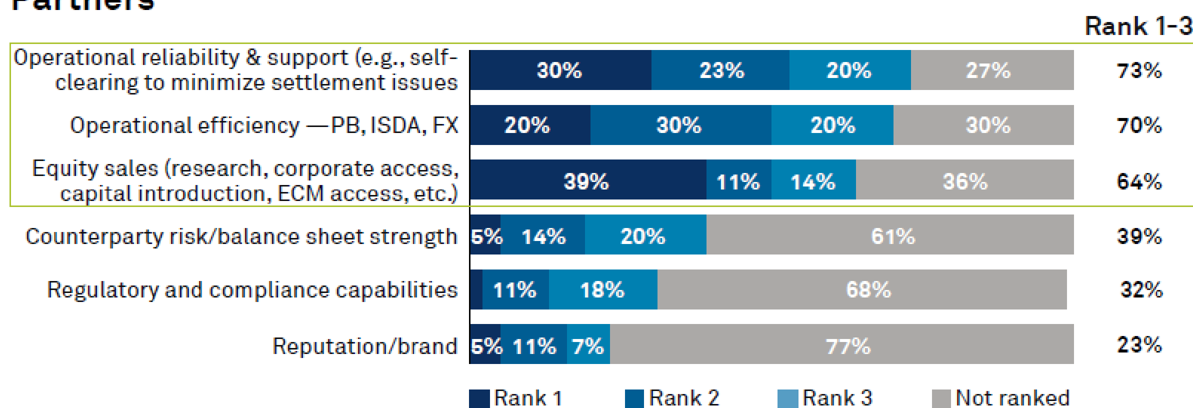
Note: Based on 147 respondents.
Source: Coalition Greenwich 2023 Asset Management Outsourcing Study

During the conference, we also looked at specific issues for the buyside, such as cross-regional trading. Greenwich research[3] shows the buy side's primary pain point here is operational efficiency (49%), particularly in post-trade workflow functions like mid/back office and settlement issues. Similarly, gaining local market insights and understanding market structure nuances (augmented by having "boots on the ground") are vital, with 44% selecting the former and 40% the latter in their top three concerns.



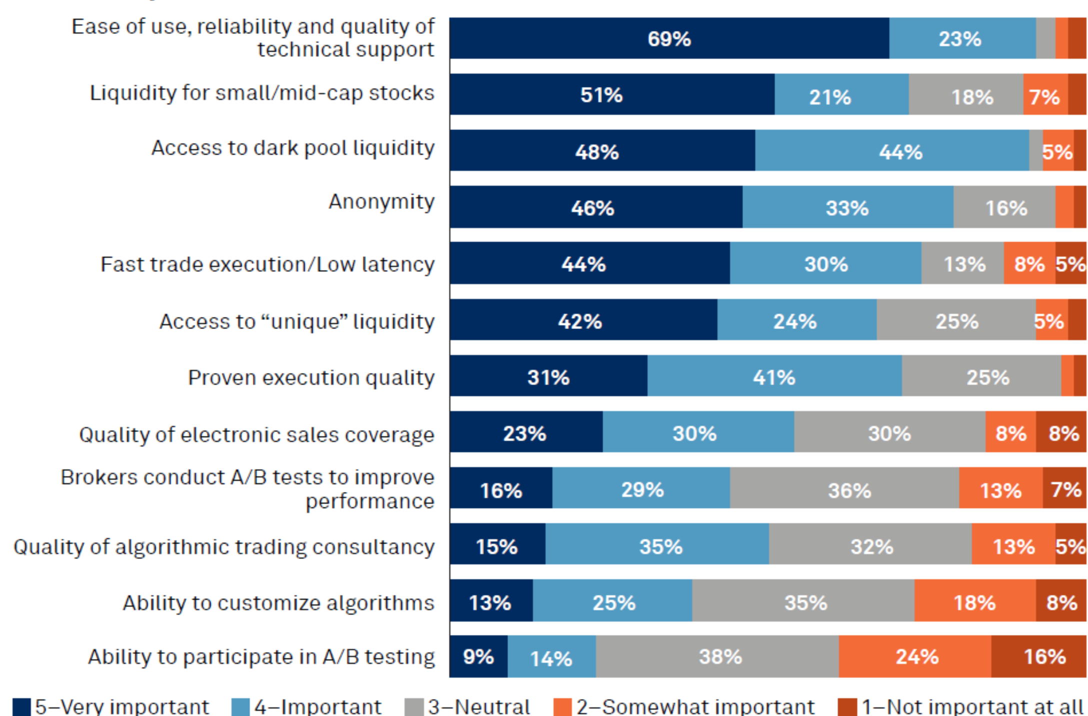
[3] https://www.greenwich.com/equities/cross-regional-equity-trading-outsourcing-outperformance

In other Greenwich research[4], 73% of respondents indicated that the most important non-execution attribute of cross-regional trading partners is operational reliability and support. This was followed by 70% operational efficiency and 64% equity sales. It is interesting to look at the bottom of the list. Essentially no one ranked reputation/brand or regulatory and compliance capabilities. These are not due diligence categories. They are effectively the ante necessary just to enter the game.



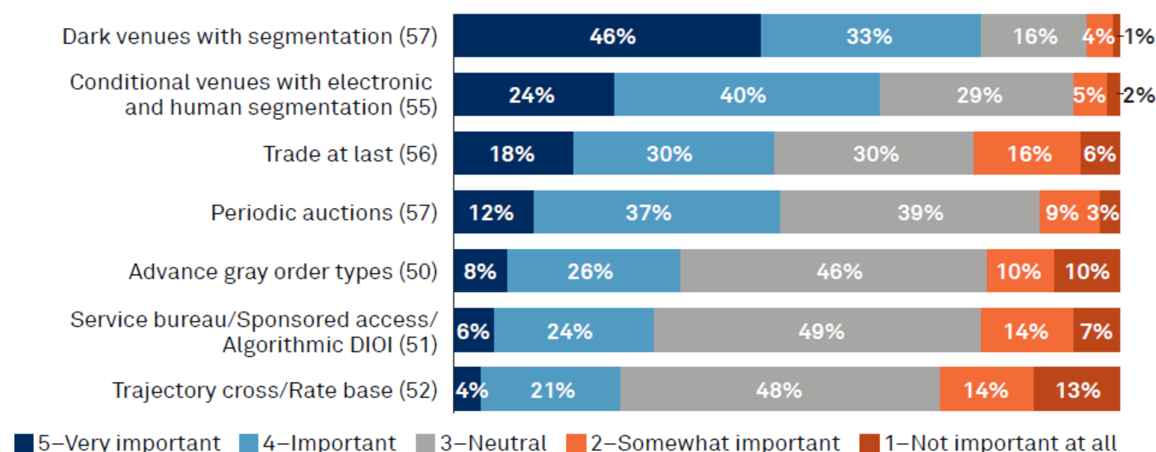
[4] https://www.greenwich.com/equities/globalization-algorithmic-equity-trading-buy-side-view

Then we moved on to sourcing liquidity. Greenwich research[5] shows a vast majority of buy-side traders (69%) felt ease of use, reliability and quality of technical support make up the most important selection criteria for low-touch market access. This was followed by 51% liquidity for small/mid-cap stocks and 48% access to dark pool liquidity. Other characteristics, including access to unique liquidity, proven execution quality and low latency, were also viewed similarly across respondents and perhaps can now also be considered another ante to sit at the table.



[5] https://www.greenwich.com/equities/globalization-algorithmic-equity-trading-buy-side-view

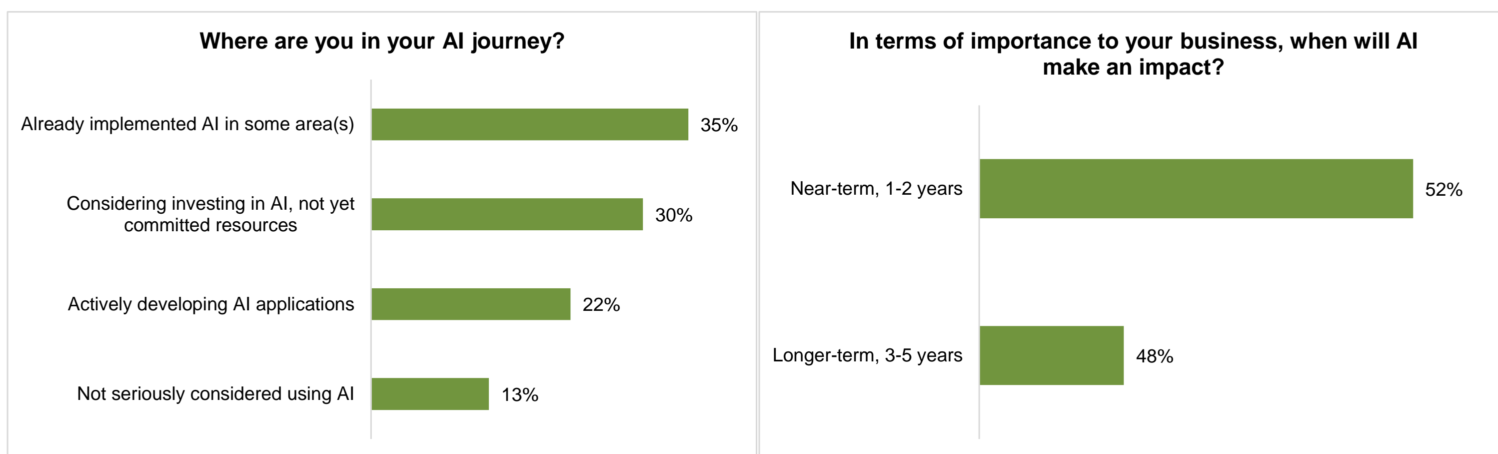
Greenwich research[6] also showed that in terms of market impact for their orders, dark venues with segmentation are a key factor to sourcing liquidity, with 79% of respondents indicating they are "very important" or "important". This was followed by 64% conditional venues with electronic and human segmentation and 48% trade at last. One notable difference, EU/U.K.-based asset managers rank trade-at-last and periodic auctions much higher than their North American counterparts. Among EU/U.K. asset managers, 27% rank trade-at-last and 18% periodic auctions as very important, compared to 12% and 9%, respectively, in North America.



[6] https://www.greenwich.com/equities/globalization-algorithmic-equity-trading-buy-side-view

Finally, we moved on to everyone's favorite topic, artificial intelligence (AI). Before analyzing Greenwich research data, we polled the audience on their thoughts. As to where their firms were in their AI journey, 35% of responding audience members replied that they have already implemented AI in some area(s) of business. This was followed by 30% considering investing in AI but have not yet committed resources.

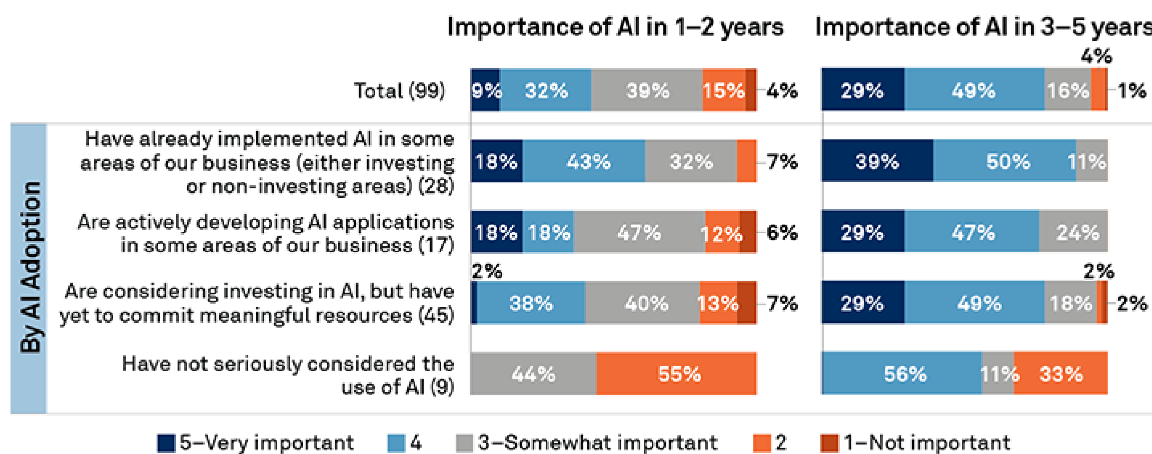
We also asked the audience when they thought AI would make a difference, in terms of importance to their business. 52% of responding audience members replied in the near term (one to two years) and 48% longer term (three to five years).



Source: Audience polling

Greenwich also collected sentiment in similar research[7] across buyside firms, as highlighted below:

- Across all respondents, 78% feel AI will be "very important" or "important" to success in asset management in the next 3-5 years. 41% of respondents believe that AI will be a game-changer within the next 1-2 years. This number might seem modest, but it indicates that some see AI as an imminent disruptor.
- 28% of asset managers have already embraced AI in various aspects of their business. These are the pioneers, venturing into the uncharted waters of AI implementation.
- 17% are actively developing AI applications, showing that they recognize the potential and are actively working on harnessing it.
- 46% are considering investing in AI, though they haven't yet fully committed. This group represents thoughtful evaluators, carefully weighing the benefits before diving in.
- While 9% have not seriously considered AI, there is something to be said for embracing a last mover advantage, particularly when it comes to untested technology.



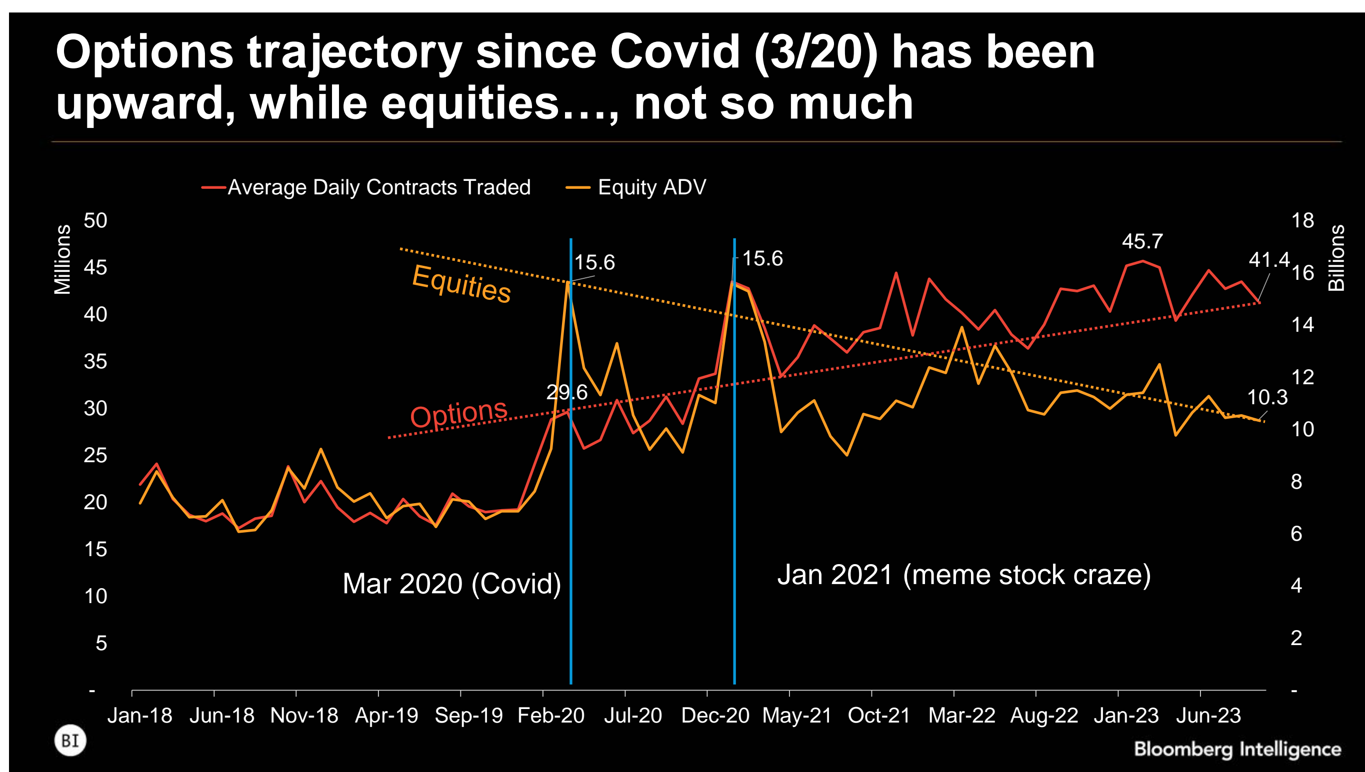
[7] https://www.greenwich.com/blog/revolutionizing-asset-management-power-ai-unveiled

Multi-Listed Options Markets

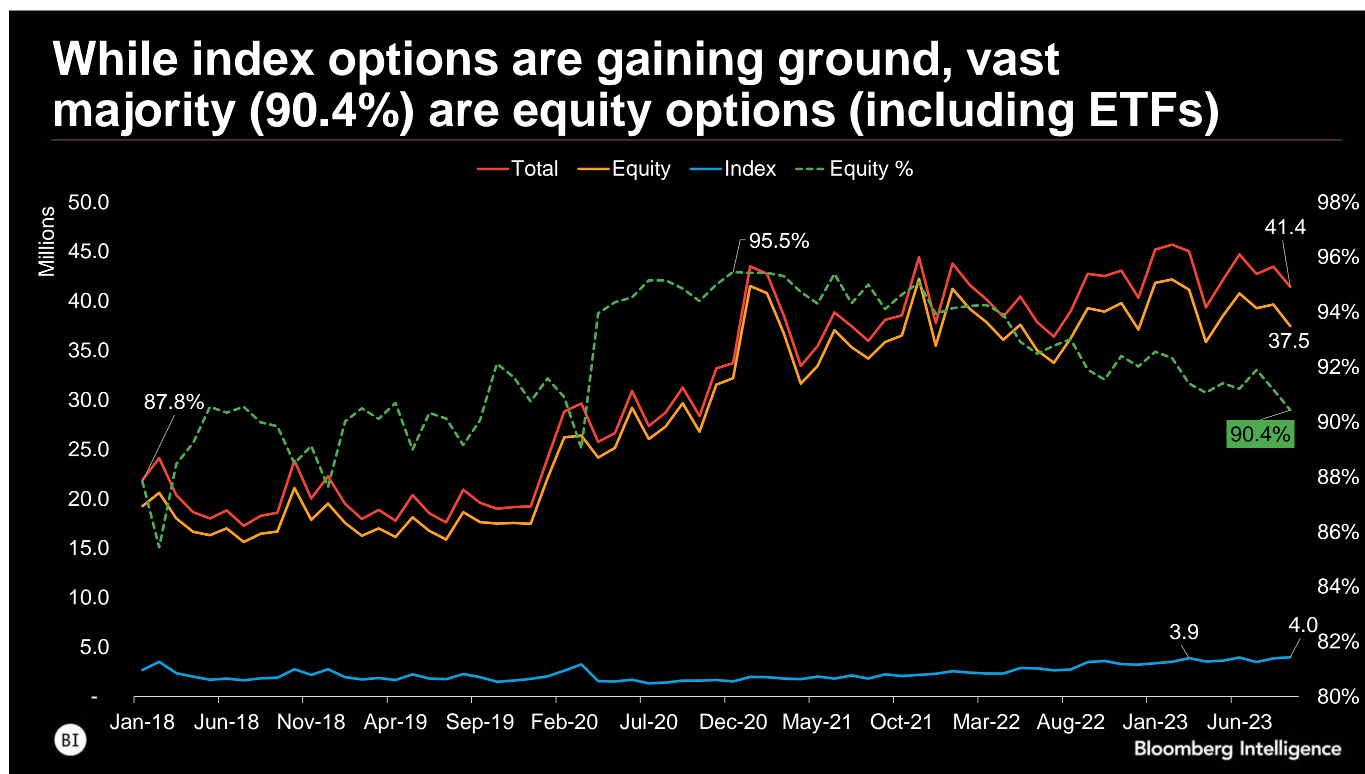
Multi-listed options volumes remain elevated at:

- YTD (through October) 43.4 million contracts; equity 39.6, index 3.8
- October 43.9 million contracts; equity 39.4, index 4.5
- We note that there are now 17 exchanges and soon to be 18 (up from 16)

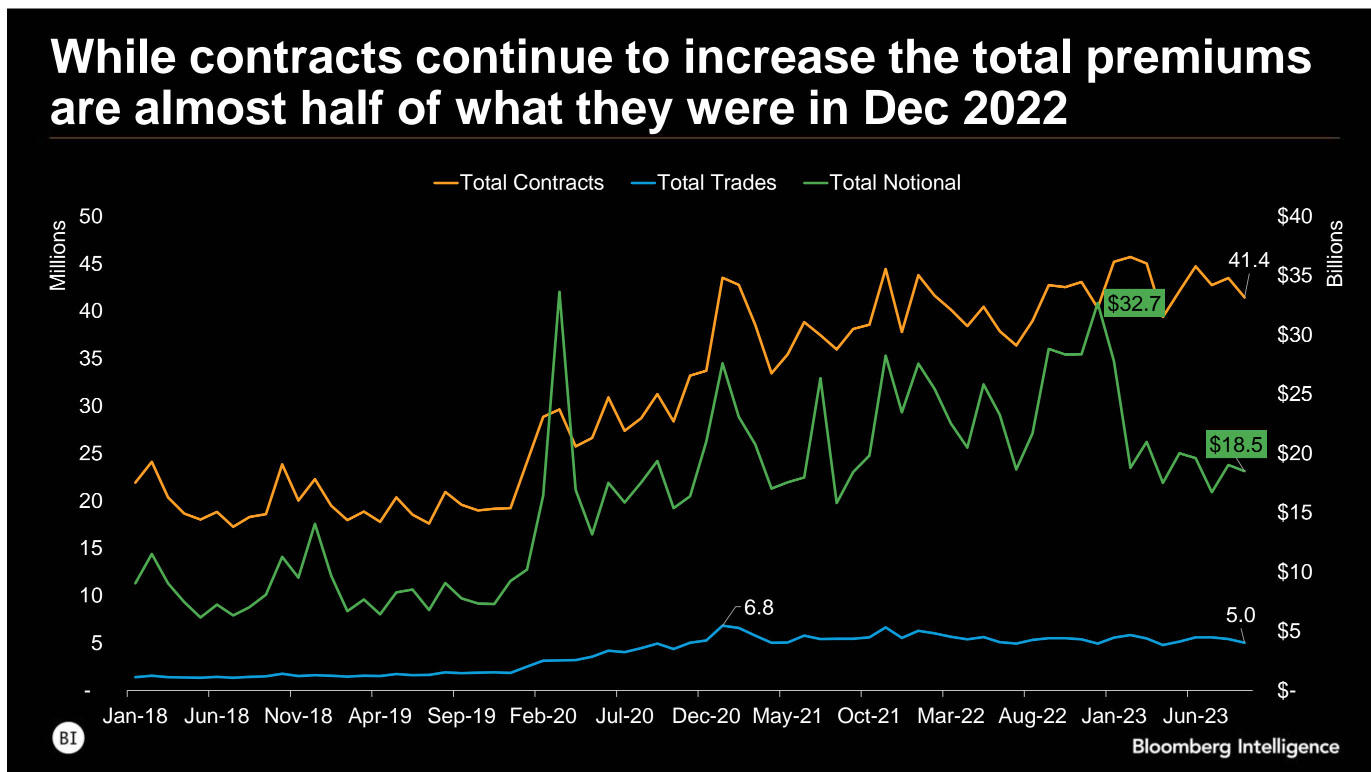
According to Bloomberg Intelligence analysis, options volumes, in terms of average daily contracts traded, have continued to grow since the start of COVID (March 2020), while equity average daily volume (ADV) has come down.



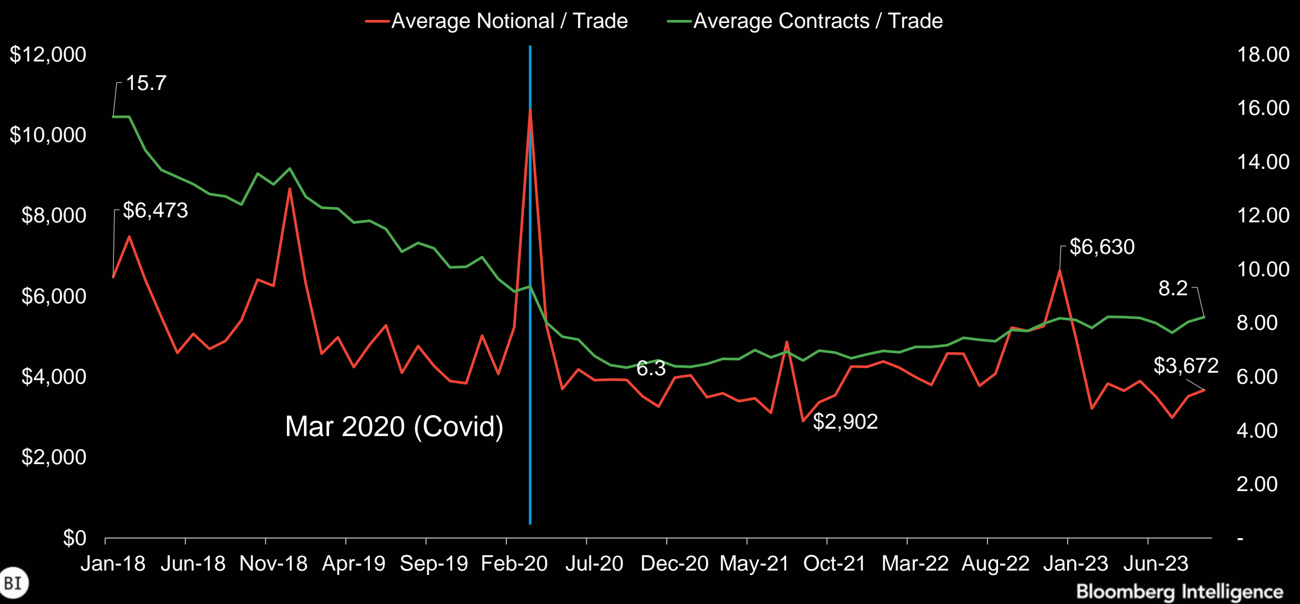
Yes, there has been solid growth in index options – index options ADV 3.8 million contracts YTD through October, +32.2% to last year's ADV – but 90.4% of total options volumes remains in equity contracts (includes ETFs), as noted by Bloomberg Intelligence research.



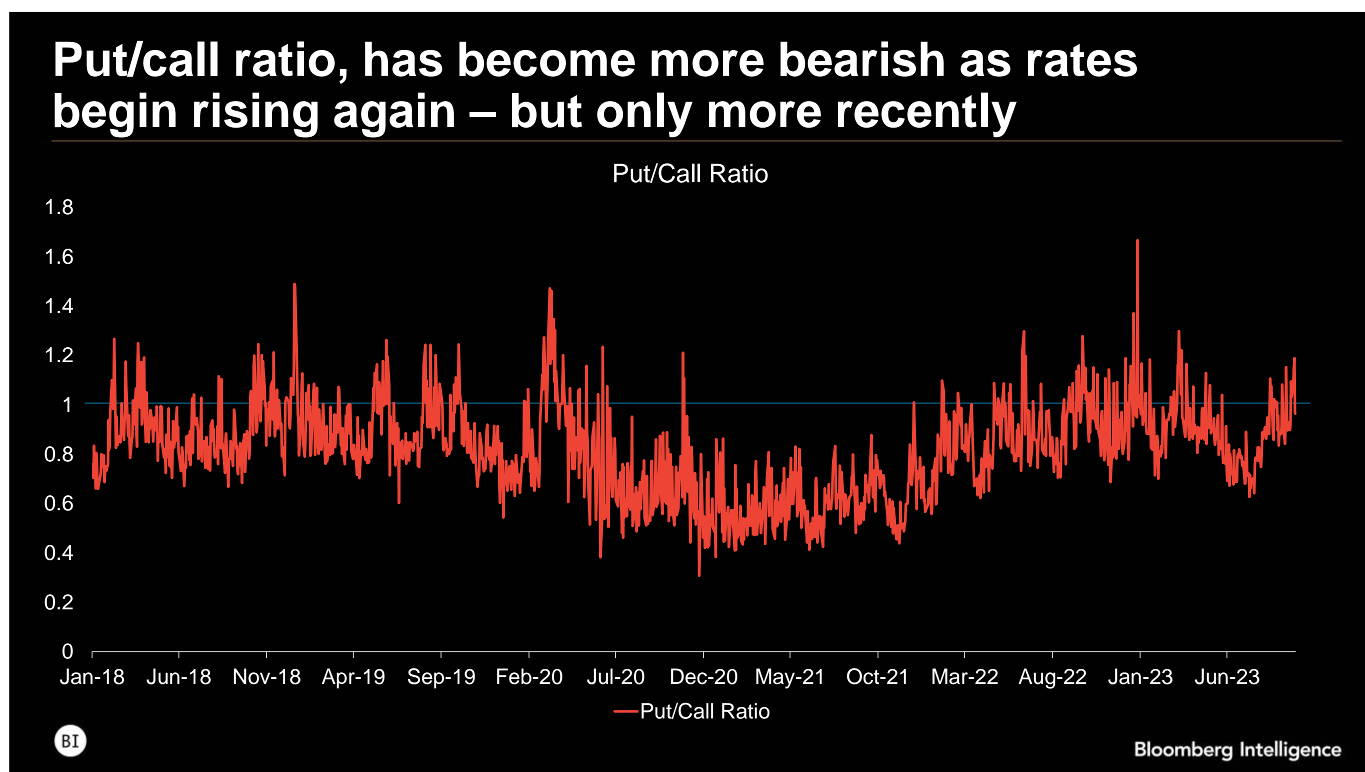
While total contracts traded continues to increase, total notional traded has declined, with total premiums down around half of the December 2022 level, according to Bloomberg Intelligence research. Total number of trades has come down as well, albeit not as dramatically as the trend in notional.



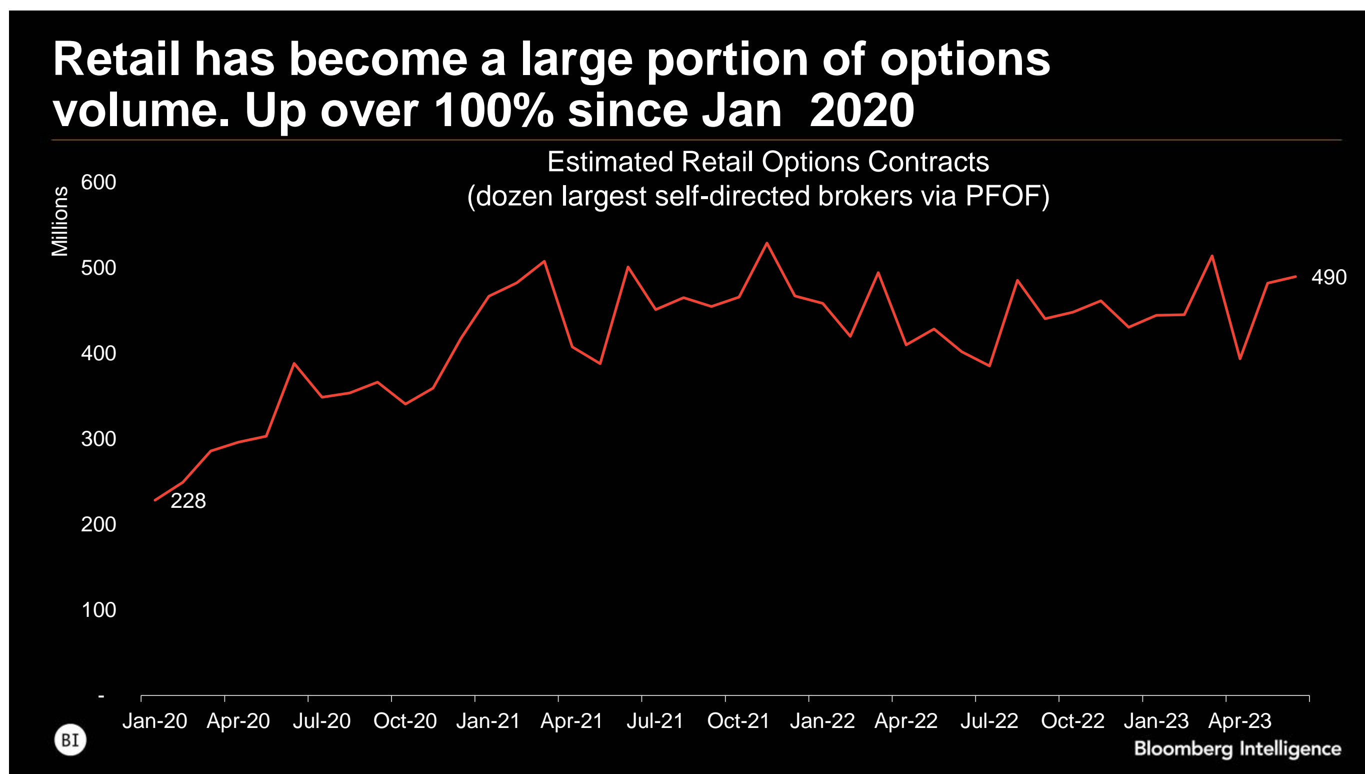
Bloomberg Intelligence research indicates that trades are getting smaller. Both the average number of contracts per trade and average notional per trade have declined since 2018: contracts by 48% and notional by 43%.



Bloomberg Intelligence research also notes that the put/call ratio – the number of put (sell) contracts bought versus call (buy) contracts – has risen. This ratio can be thought of as a measure of the level of worry among investors/traders. The ratio began to increase when the Fed started raising rates, March 2022. It has risen more sharply lately, as the long end of Treasury rates began to climb steeply as well.

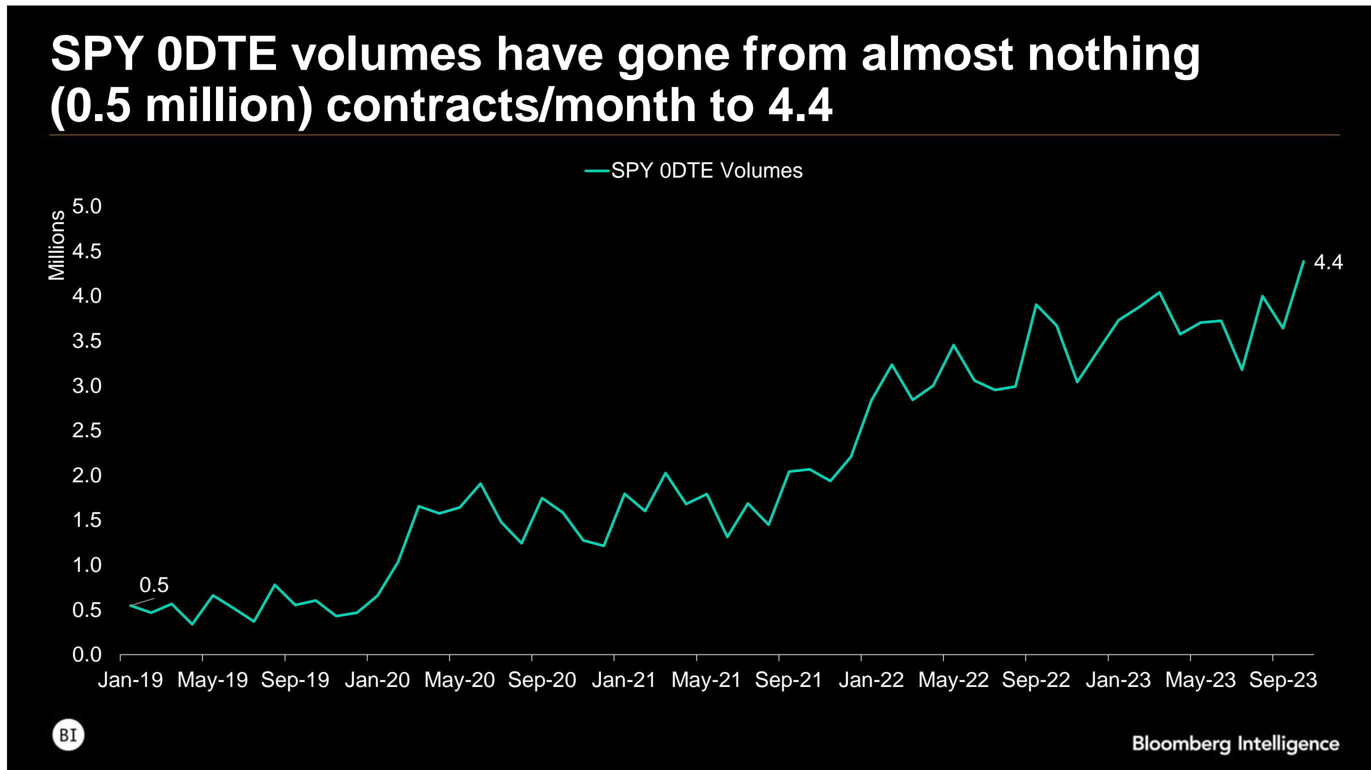


As we have written, the growth in options volumes has largely been attributed to the growth in retail trading. Bloomberg Intelligence data quantified this statement, indicating retail options contracts traded have grown over 100% since the start of 2020.



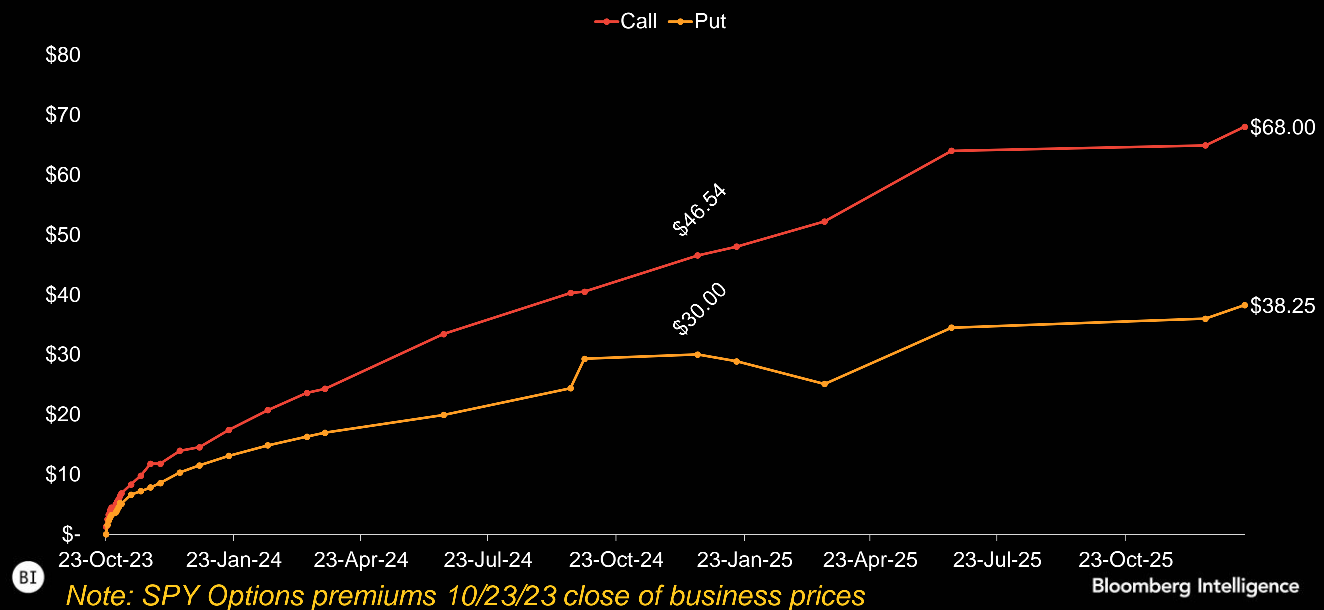
Note: Bloomberg Intelligence reverse engineered Rule 606 data to obtain these figures. Total payments / average payment per contract = number of contracts.

Zero-days-to-expiration (0DTE) options contracts have grown significantly, +780% since 2019, as shown in Bloomberg Intelligence research. Of note, one of the drivers of growth is that there are now S&P 500 options contracts expiring every day of the week versus only Friday expirations back in 2019.

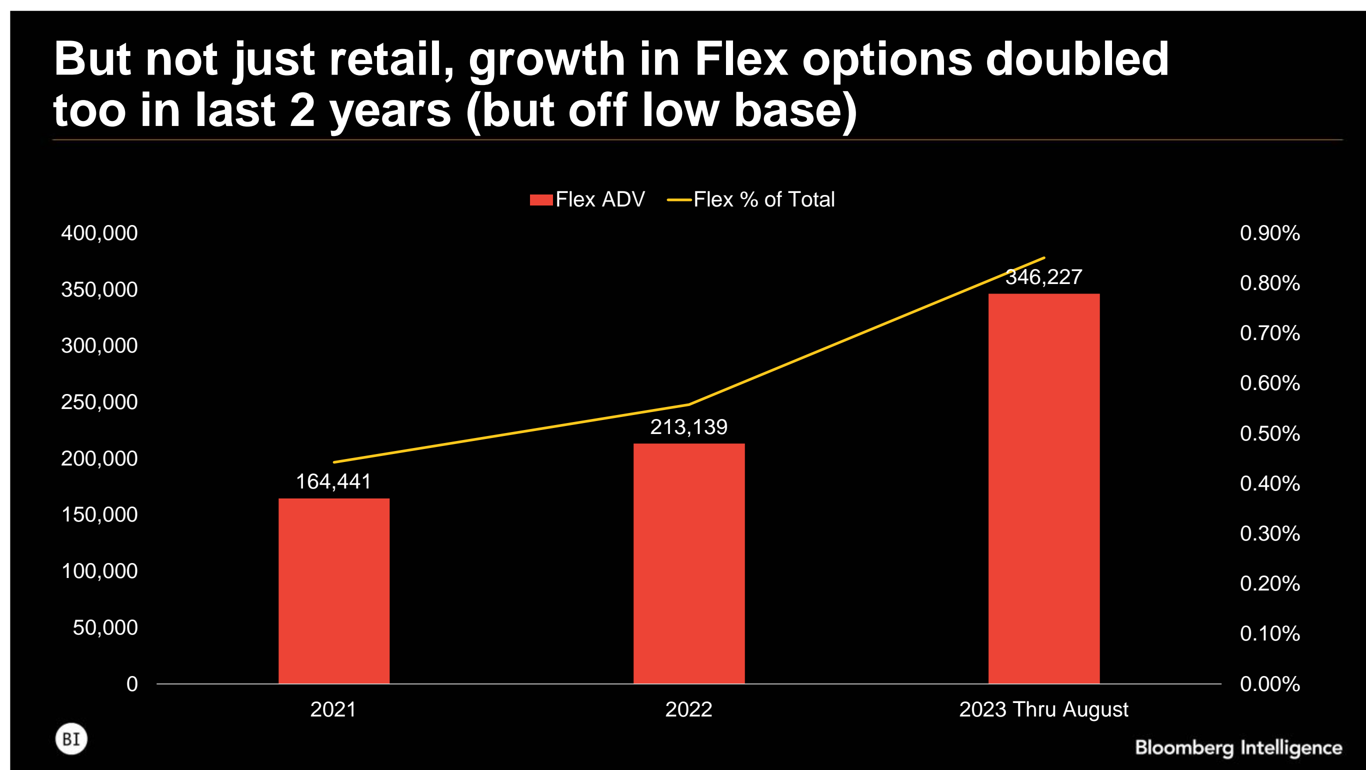


Note: Zero-days-to-expiration (0DTE) options contracts expire at the end of the current trading day. However, we note that they are listed two weeks prior to expiration.

Why the interest in trading 0DTE options? According to Bloomberg Intelligence, term premiums increase with time. If you trade an options contract at the end of its life, it is pretty inexpensive. For example, you can buy a SPY contract with a one day expiration for a few dollars. However, if you go back a few years prior to expiration, it could cost around $60. These types of options also allow investors/traders to create more complex trading strategies.



Flex options trading is growing as well, +110.5% since 2021. However, Bloomberg Intelligence estimates that these contracts represent less than 1% of total volumes.



Note: Flexible exchange options (FLEX) are nonstandard options that allow both the writer and purchaser to negotiate various terms (exercise style, strike price, expiration date, etc.).

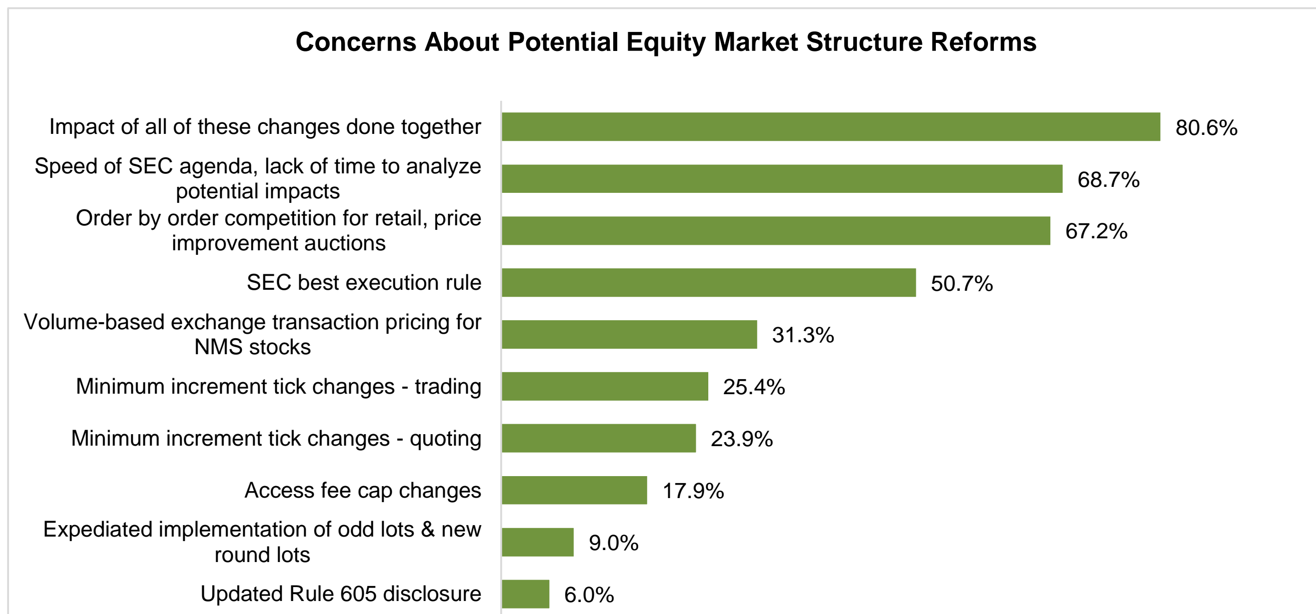
The Regulatory View

Market Touchpoint: Equity Market Structure Reform

Our pre-conference survey sought to gauge respondents' thoughts around the SEC's proposed equity market structure reforms. We highlight the following in respondents' perspectives on key concerns:

- 80.6% responded the impact of all of these changes done together
- 68.7% responded the speed of the SEC agenda and the lack of time to analyze potential impacts
- 67.2% responded order by order competition for retail orders/price improvement auctions

Survey Questions: What concerns you most regarding potential equity market structure reforms? (Please check all that apply)



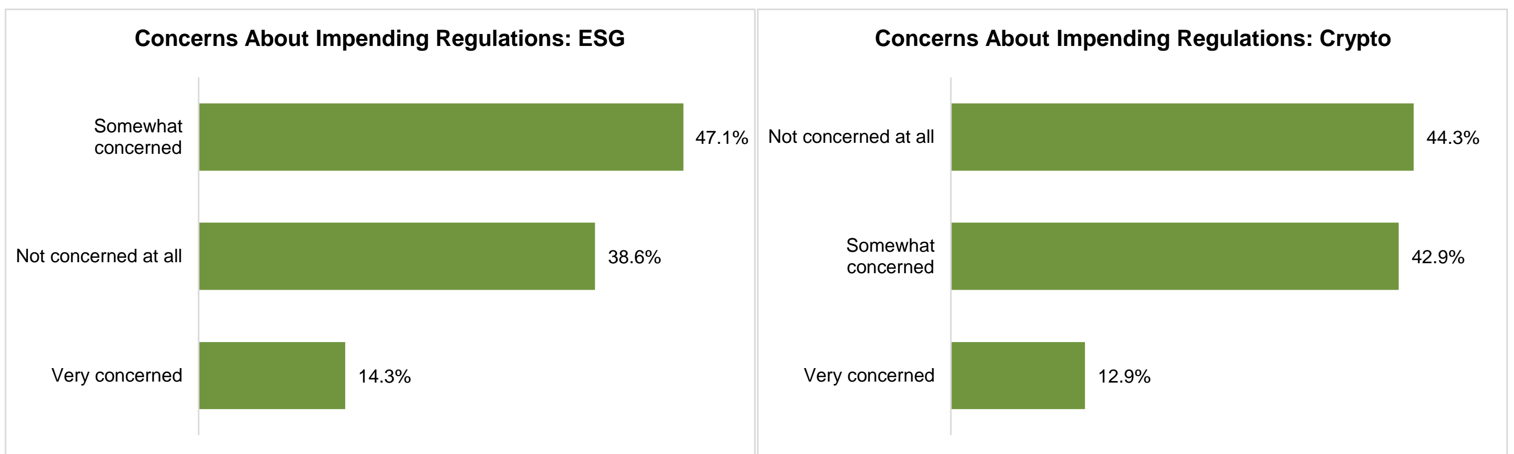
Source: SIFMA Insights pre-conference survey

Market Touchpoint: Other Regulations

Our pre-conference survey also gathered respondents' concerns around other regulations, ESG and crypto. We highlight the following in respondents' level of concern on each:

- ESG: 47.1% responded they are somewhat concerned, followed by 38.6% being not concerned at all
- Crypto: 44.3% responded they are not concerned at all, followed by 42.9% being somewhat concerned

Survey Questions: How concerned are you about impending regulations for: ESG? Crypto?



Source: SIFMA Insights pre-conference survey

The SEC Agenda

As a reminder, market participants are now considering six major rule proposals which could significantly impact equity and listed options markets (as well as others).

The Original Four (proposed December 14, 2022):

- **Rule 605** – Disclosure of Order Execution Information – update disclosures required under Rule 605 for order executions in national market system (NMS) stocks by: expanding the scope of reporting entities subject to the rule; modifying the definition of covered orders; modifying the information required to be reported under the rule; modifying reporting requirements for non-marketable limit orders; eliminating time-to-execution categories in favor of average time to execution; and enhancing the accessibility of the required reports by requiring all reporting entities to make a summary report available.
- **Tick Sizes** – Tick Sizes, Access Fees, and Transparency of Better Priced Orders by: adopting variable minimum pricing increments for quoting and trading NMS stocks; reducing access fee caps; transparency of volume-based exchange transaction fees at the time of execution and enhancing the transparency of better priced orders.
- **Best Ex** – Regulation Best Execution – new rules relating to a broker-dealer's duty of best execution under the SEC's umbrella (as opposed to the rule that exists from FINRA today).
- **Auctions** – Enhancing Order Competition – to promote competition as a means to protect the interests of individual (retail) investors and to further the objectives of Reg NMS.

+ The New Kid on the Block (proposed October 18, 2023):

- **Tiering** – Volume-Based Transaction Pricing – prohibit exchanges from offering volume-based transaction pricing in connection with the execution of agency or riskless principal-related orders in NMS stocks.

+ Predictive Data Analysis Makes 6 Proposals (proposed July 26, 2023):

- **PDA** – Require broker-dealers and investment advisers to take certain steps to address conflicts of interest associated with their use of predictive data analytics and similar technologies to interact with investors, in order to prevent firms from placing their interests ahead of investors' interests (conflicts of interest).

General Concerns

Why can't we all just get along, or in this case work together? Panelists noted that the public and private sector should be working together to benefit investors. Instead, market participants are wasting money and resources (people's time) to "fight" regulators. Regulatory animosity benefits no one, and some market participants feel the proportion of time spent discussing individual regulations, the interconnectedness of multiple proposals, and the speed of regulatory proposals is skewed in a negative way. Market participants believe time would be better spent working toward innovations that benefit investors. Changes in markets – changes that would benefit investors – should come from innovation, not regulations.

As we have written previously, concerns around the SEC rulemaking agenda include the volume and speed of proposals, the complexity they would introduce, and the potential for unintended consequences. Before going into more details, let us take a step back. These proposals were not in response to – and they are not a Congressional mandate – an actual incident, such as with the 2010 Flash Crash. Ironically, at that time, the market was calling for changes after the event. It was the SEC that said we needed to slow down. They underwent a four-month study, and then they took a slow approach to changes after the Flash Crash. For example, the circuit breakers and limit up/limit down mechanisms – considered much less complex than what has been proposed today – took a year to develop. It must be noted that these changes were in response to an actual incident. With the current proposals, market participants are asking what market failure the SEC is trying to address. Spoiler alert, there isn't one.

Questions exist over today's rulemaking process. In the past, there was clarity on what problem regulators were trying to solve. Today, we have solutions to unknown problems. In the past, regulators developed changes with many different types of market participants at the table. Today, the proposal comes first, then the market digests and reacts. What is the next step, straight to final rule? Will feedback even be heard?

The proposals as they stand today would represent a massive overhaul of equity markets, with spillover to the multi-listed options markets. There was no statistical economic analysis to say there was a problem. There has been no evidence presented to show how the changes would promote market quality, liquidity, or investor confidence, let alone a true cost analysis. Market participants suggested a methodical approach with open dialogue among all industry participants would be more logical and provide better results for investors.

After all, there is a substantial difference between fine tuning versus overhauling, and overhauls often lead to unintended consequences. As we have written, the preferred approach would be to begin with tweaking Rule 605. Then the SEC can study the new data collected, perform a detailed analysis of the additional proposals, and proceed cautiously. This is what they have done in the past, as seen with the Flash Crash.

Interconnectedness of the Proposals

In addition to the speed and scale of the proposals, the SEC did not analyze how the different proposals would interact with each other, or the interconnectedness of the rules. This is contradictory to what SEC Chair Gensler said himself when he first announced that changes would be forthcoming. He said the SEC was taking a holistic review – holistic means interconnected[8].

Instead, when the original four proposals were released, the industry was asked to comment on each rule individually. Who is looking at the impact from all of them together? Hint, it is not the SEC, as their own rules say they must look at each proposal individually. Now there are other proposals added to the mix, and there are inherent contradictions among the proposals. For example, the volume tiering proposal contradicts NMS rules – originally tiers were acceptable, now you cannot use them on agency trades.

Implementation Timelines

Timelines for implementation of the many rules are another area of concern for market participants. The industry needs to share their input in the SEC's process of setting timelines, as market participants are the ones who understand how markets work and what will need to be done logistically to implement the proposed changes. There is precedent for industry engagement. The market data rule had a two-day roundtable for industry participants to share feedback. Regulation Best Interest (Reg BI) was a multi-year effort from start to finish, with lengthy studies, around six thousand comment letters, and many discussions with industry.

It would also be useful if the current rulemaking had a lookback process to assess:

- Have projected benefits actually been achieved?
- What are actual versus projected costs?
- Were the assumptions used in writing in the proposals actually true?
- What is the impact on smaller and mid-sized firms?

In reality, the final house you build will differ from the blueprint. As you are building, you continually access the real environment and adjust accordingly. The problem with the SEC proposals as currently known is that once written down it is really hard to change something. These rules are all very technical. There should be a process for industry to comment at some set period, for example six months, from the start of implementation on what is not working without using exemptive relief.

When it comes to implementation, we would be remiss if we did not acknowledge the elephant in the room. We are 195 days away from the May 28, 2024, transition date to T+1 settlement in the United States. This change alone will require significant operations and technology resources to accomplish (and the industry is confident we will accomplish it). No firm of any size has an unlimited supply of engineers and technicians. Once you overlay these numerous other rules, you are adding more work to those same bodies. This can introduce operational risk in the system.

[8] Holistic is characterized by the belief that the parts of something are interconnected and can be explained only by reference to the whole.

More on the Six Proposals

Finally, since we have written much in the past on the concerns around each of the four original proposals, we will re-highlight a key or few top of mind concerns here (please note that this is not meant to be an exhaustive list).

Tick Sizes: There is a concern among market participants that a one size fits all approach may not be the optimal way to look at markets, with a multifactor approach that considers the impact on liquidity recommended as a better approach. There are questions as to where to draw the line on bucketing stocks – some believe there are already some stocks with too many ticks, some less liquid stocks already have tick increments too small. Additionally, this could have a significant impact on listed companies. If you dynamically change ticks, then one company could trade "vastly" differently than peers. This would increase the cost of raising capital (there have been "hundreds" of academic studies on capital raising and tick sizes). This could shift trading flow from one company to another. We also note that options markets will be impacted as well, as strike prices will need to change in accordance with ticks.

Best Ex: The obvious starting place here is that markets already have a best ex rule under FINRA, and it works. It is a robust rule, with years of derived guidance behind it. Equity markets did not experience a clear market or regulatory failure that would drive the need for a new rule (especially since the SEC has regulatory authority over FINRA).

Next, market participants view this rule as too prescriptive, which just does not align with the reality of how trades trade. There were flaws in the economic analysis of this proposal, as the SEC used midpoint, which might not necessarily be accessible to retail. The industry would also need further guidance on conflicted transactions, as there is currently significant confusion around the scope of this aspect of the proposal. The definition is too broad – what is not a conflicted transaction, asked one panelist. This becomes a problem because if every transaction is a conflict, how will firms demonstrate a higher bar without a baseline?

Additionally, the best ex rule is specifically meant to reach across multiple asset classes. This means it will matter to options markets. One panelist noted that, based on the market structure, there is no such thing as an unconflicted options trade. Therefore, firms will have to apply a more rigorous best ex review. Further, all options trades already take place on exchange, with most retail orders receiving price improvement. Is that not already in line with what the SEC is hoping to achieve with its best ex rule?

Auctions: This proposal is also viewed as too prescriptive. First, market participants do not currently see a lack of competition for retail orders – in fact, as we have written in the past, it is often a dog fight for these orders. Second, the complexity of building out these auctions is "massive". There could be issues with less liquid stocks, and what if there is no take up in the auction? Currently, all retail orders routed to wholesalers receive guaranteed execution. Panelists noted that they do not think it is in investors best interest for the government to mandate trading in auctions. Telling firms how to route ties their hands and limits innovation. It could also lead to worse execution quality.

As to options markets, if the goal in equities was to allow retail and institutional trades to interact, options already have auctions and trade on exchange.

Tiering: For this newer rule proposal, once again, market participants do not see any proof that certain market participants or exchanges are being harmed, i.e., there was no event or reason for the rule. The SEC proposed this without any industry engagement, and its own questions and requests for data indicate that it does not have a clear picture of the current impact of buy- and sell-side executing broker relationships and the role of tiered fees. The SEC assumes that small and medium sized firms are being harmed. Market participants note that these firms actually benefit from tiering, as it allows them to obtain better rates by letting larger firms do their routing, thereby enabling these smaller firms to become more competitive.

This rule was meant to help smaller exchanges become more competitive. It is not the SEC's role to pick winners and losers. After all, we have seen time and time again that smaller firms/new entrants can compete and gain market share. Further, executing on exchanges is currently more expensive than routing to off-exchange execution venues. This proposal could eliminate incentives to trade on exchange, potentially decreasing the flow to exchanges rather than increasing it as the SEC intended.

PDA: Under the guise of slowing the adoption of artificial intelligence (AI) as it could harm investors, this proposal is incredibly, incredibly broad. However, as written, it is unclear what problem the SEC is trying to solve. It encompasses almost all forms of technology, such as websites with investment recommendations. It includes simple spreadsheets and stock screeners. None of these are viewed by industry as new or complex technologies that would warrant new regulations. As read, everything firms do appears in scope. It will impact all firms – and markets as a whole – and would have "mass" repercussions.

Additionally, typically conflicts have been handled by disclosures – and the SEC considers themselves a disclosure regulator. This rule would change that. Firms would have to neutralize or eliminate any conflicts of interest in any technology offering used to communicate with investors. One speaker used a stock chart with a trendline as an example. The perceived conflict is that the trendline implies the stock price will keep going up. To eliminate the conflict, you can simply remove the trendline. Now it is just a factual stock chart. But what is neutralize? And why is a simple disclaimer saying historical performance is not necessarily indicative of future performance not sufficient to neutralize the conflict?

It is odd to market participants that disclosures would not be sufficient in this one instance, as they have been for so many other aspects of the financial services industry for decades.

More on Market Themes

Trends in Retail Trading: Equities

ETFs: Panelists estimated inflows to ETFs to be around $400 billion this year, as retail investors continue to be net buyers of ETFs. Flows are mostly into equity ETFs, but there is increasing adoption of fixed income ETFs. A panelist estimated that around 70% of new launches are in active ETFs, up from 50% last year, which now represent around 25% of total flow. Panelists expect flows into ETFs to continue at the expense of mutual funds.

24-Hour Trading: Panelists indicated they are seeing more interest in extended trading hours globally, especially from Asia Pac clients. Overnight trading was estimated at around 3-5% of total volumes, although another panelist estimated 7-10%. Concerns remain as this area grows, including: trade reporting, as the SIP does not operate during these hours; what to do when news alerts come out; guardrails on trades; and wider spreads/lower liquidity than day hours. Additionally, some firms have expressed concerns over finding qualified staff for the overnight (in terms of EST) hours.

Fractional Shares: Panelists indicated they are not yet seeing tremendous demand. However, they do note that the younger generation of investors think in dollars, not shares. This could fuel growth in this area. Concerns remain around the complication that market structure is not set up for fractions. For example, you have to submit a one share report for something that is not a one. Another area of concern is that the industry has not yet established guidelines and processes – and then formal rules at DTCC, the exchanges, FINRA, and other market infrastructures – to trade, clear, and settle fractional shares (plus ongoing maintenance, such as stock inventory management, corporate actions, etc.).

Sub-Dollar Stocks: The concern in these listings is the volatility in volumes traded. For example, a stock volume can jump 100x times intraday and then fall back down. Some panelists wonder why these listings are allowed to exist. At Nasdaq, sub-dollar stocks represent 8-9 bps of total notional, but a larger amount of share value. (We note that NYSE and Nasdaq each have a rule to remove listed companies if they cannot rectify their sub-dollar stock price within a set time period.)

Trends in Retail Trading: Options

The conversation focused on the growth in trading of zero-days-to-expiration (0DTE) options by retail investors. (We note that while these options contracts expire at the end of the current trading day, they are technically listed around two weeks prior to expiration.) Panelists were not surprised by the growth. For example, there has been a shift in how people digest information in general. In the past, people would sit through an assigned full-day training seminar. Now, they can undergo a series of 20-30 minute clips at their leisure.

While most market participants are comfortable with 0DTE trading in index options, concerns exist around single name contracts. Should news break after the close, the stock may react instantly yet there is a gap in time with the options contract. This is a different risk for brokers to manage.

New Exchanges

There are now 17 operating options exchanges – soon to be 18 – and 16 equities exchanges. Should the number matter? On one hand, as panelists noted, clients just want to get filled. They do not care about the number of exchanges or who routed their order where. They just care about the execution quality (EQ) of their trade. However, brokers have to analyze routing to all exchanges under best execution rules, and they must purchase market data for all exchanges. This adds costs to the equation.

Panelists indicated that they do not necessarily object to new exchanges. They just want a new exchange to bring something to the table – price competition, technological innovation, etc. Some wondered if they should raise barriers to entry. For example, an exchange group should have to show a minimum market share on their latest exchange before opening a new one. Others wondered if this would stifle competition or innovation.

Appendix: SIFMA Insights Research Reports

SIFMA Insights: www.sifma.org/insights

- Ad hoc reports on timely market themes
- Market Structure Compendium (annual report)
- COVID Related Market Turmoil Recaps: Equities; Fixed Income and Structured Products

Monthly Market Metrics and Trends: www.sifma.org/insights-market-metrics-and-trends

- Statistics on volatility and equity and listed options volumes
- Highlights an interesting market trend

Market Structure Primers: www.sifma.org/primers

- Capital Markets Primer Part I: Global Markets & Financial Institutions
- Capital Markets Primer Part II: Primary, Secondary & Post-Trade Markets
- Global Equity Markets
- Electronic Trading
- US Capital Formation & Listings Exchanges
- US Equity
- US Multi-Listed Options
- US ETF
- US Fixed Income

Conference Debriefs

- Insights from market participants into top-of-mind topics
- Pre-Conference Survey Comparison, compares survey results across various conferences

Equity Market Structure Analysis

- The ABCs of Equity Market Structure: How US Equity Markets Work and Why
- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

Top of Mind with SIFMA Insights

- Podcasts with market participants on key market and economic themes, including reference guides defining terms and providing charts on the topics discussed on the podcast

Author

SIFMA Insights

Katie Kolchin, CFA
Managing Director, Head of Research
kkolchin@sifma.org

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