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January 28, 2015

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Dear Mr. Fields:

Attached for your consideration is a set of recommendations by the FIA Principal Traders Group (FIA PTG) regarding simplification of the U.S. equity market structure. 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 welcomes the opportunity to discuss these recommendations with you and your Staff. If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact Mary Ann Burns [redacted]).

Respectfully,

FIA Principal Traders Group

Mary Ann Burns
Chief Operating Officer
FIA

Simplifying U.S. Equity Market Structure

January 28, 2015

The FIA Principal Traders Group (FIA PTG) recommends modernizing Reg NMS to simplify and improve the regulatory structure of the U.S. equity markets. Specifically, we propose eliminating the trade through rule (Rule 611) and the requirement to avoid displaying locked and crossed markets (Rule 610.d). At the same time, we call for enhancements to broker best execution requirements and updating certain disclosures (Rules 605 and 606).

Background

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 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. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. FIA PTG advocates for open access to markets, transparency, and data-driven policy.

Last September, FIA PTG published its recommendations for reforms to the U.S. equity markets. These recommendations covered improving transparency to various aspects of the markets (including ATSs and order routing practices), reducing excessive market fragmentation, improving consolidated data feeds and related disclosures, promoting fair access to markets and making regulatory processes more inclusive and data-driven.

Recently, a number of market participants and stock exchange operators have weighed in with ideas for packages of market structure reforms. We agree with the general notion that the regulatory structure should be modernized to reduce complexity and fragmentation. We support parts of these proposals and welcome the beginnings of an informed debate on how to implement thoughtful and beneficial reforms that preserve the features that have made the U.S. equity markets some of the highest quality in the world. To advance the debate, we are offering additional feedback and commentary on ways to simplify the markets.

Unnecessary Complexity

In our earlier recommendations, we expressed concern about excessive complexity in the U.S. equity markets. Complexity is expensive. It can drive up costs for market participants, obscure local and systemic risks, confound surveillance efforts and harm investor confidence. While some complexity is inherent in the task of fairly and efficiently executing millions of trades across a large and diverse market, we are concerned about regulation that drives complexity without delivering sufficient benefits.

For example, Reg NMS (in Rule 610.d) requires trading venues to establish and enforce procedures that prevent their members from locking or crossing quotes displayed on other trading venues. In a locked market, the best bid and ask prices are identical; there is no bid ask spread. In a crossed market, the best bid price exceeds the best ask price. This ban on displaying locked and crossed markets effectively requires each venue to collect and process data from every other displayed venue to determine whether incoming orders appear to lock or cross quotes on those venues. It also has encouraged the venues to develop hundreds of order types to allow their members to specify how they would like orders to be handled if they appear to lock or cross another venue. Of course, there are numerous exceptions, each with their own complexities. For example, Reg NMS created the concept of Intermarket Sweep Orders (or ISOs) with rules that are so intricate that only a relatively small number of market participants actually use them.

Similarly, the order protection or "trade through" rule (Rule 611) in Reg NMS effectively requires all market participants to do business with all trading venues that display orders, regardless of their market share. This rule requires trading venues to establish and enforce procedures designed to prevent trades at prices worse than the best-priced quotes displayed by other venues. This means that venues must again collect and process data from other venues and must be able to handle a variety of instructions about how to handle orders that appear to trade through. Many venues have developed elaborate routing mechanisms to comply. This has contributed to a dramatic growth in the number of exchanges and other trading venues in recent years, many of which account for minimal trading volumes.

Several market participants have proposed handling this concern by amending Reg NMS to allow market participants to trade through venues that do not have critical mass (less than 1% market share). While FIA PTG believes that this would make for less complexity at the margin, we believe this would not go far enough to truly simplify the linkages among different trading venues.

Benefits of Proposed Reforms

Instead, we recommend simply eliminating the trade through rule and the related prohibition on locked and crossed markets. We believe these proposed reforms would simplify the markets in meaningful ways, including:

- reducing the need for hundreds of exchange order types that are used today to prevent locks, crosses and trade-throughs;
- allowing exchanges to focus on their own markets by getting them out of the business of monitoring trading everywhere and routing orders to their competitors (a role best provided by brokers);

- reducing excessive fragmentation by removing a regulatory subsidy to inconsequential markets; and
- eliminating complexity for brokers and regulators associated with exceptions, including ISO orders and self-help declarations, which would no longer be needed.

We also expect that these changes would lead to significant other benefits to the investing public, including:

- reducing transaction costs by eliminating the cost of the bid-ask spread entirely when a market is locked; venues might be motivated to reduce access fees in locked markets in order to allow those matched prices to interact;
- improving investor confidence by making it easier to understand how orders are processed by trading venues;
- increasing trading on public, lit markets by obviating the need to seek price improvement in dark pools and through other forms of internalization when markets are locked;
- improving transparency by displaying all quotes to the public when markets are locked or crossed rather than by suppressing that information; and
- making markets more resilient by reducing the opportunity for technology or other problems in one venue to spread to others through the linkages required by Reg NMS, a significant contributing factor in the "Flash Crash" of May 2010.

Best Execution and Related Changes

The rules that we are proposing to eliminate were initially put in place, in part, to help assure that brokers were achieving best execution for their clients. This is, of course, an important, legitimate concern. We believe, however, that best execution could be addressed better and much more simply by clarifying and modernizing the best execution requirements that brokers already have, rather than by sustaining an extremely complex backstop managed by the trading venues. This modernization could include consideration of factors in addition to displayed price, such as fees and rebates. We also support updates to the disclosures of order executions and routing information (Rules 605 and 606 of Regulation NMS), which could go a long way to help investors understand the extent to which their brokers are achieving best execution and further this important objective.

We recognize that this proposal would represent a big change from current market structure and we applaud the SEC's openness to explore such changes. Chair Mary Jo White said in her speech last June, "We must test our assumptions about long-standing rules and market practices." Commissioner Daniel Gallagher has said repeatedly that in reviewing market structure, there should be no "sacred cows." We encourage the SEC to adopt these reforms in order to allow for more simple, well-functioning, transparent and resilient markets for the investing public.