Written Statement of
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SEC Equity Market Structure Advisory Committee
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SEC Chair White, Commissioners, Members of the SEC Staff, and Members of the Advisory Committee, thank you for the opportunity to submit a written statement in connection with this very important, inaugural meeting of the Equity Market Structure Advisory Committee. It is indeed a privilege and honor to serve on this Committee, and humbling to be a part of such a distinguished group of market structure experts.

By way of brief background, I am a Senior Managing Director and Global Co-Head of the ETF Group at Cantor Fitzgerald & Co. Prior to Cantor, I was Managing Director on the ETF team at Knight Capital Group. I have also served in trading and leadership roles at Newedge USA, LaBranche & Co., Susquehanna International Group, and O'Connor & Associates.

Cantor Fitzgerald was formed in 1945 as an investment bank and brokerage business, and became known for its innovation in computer-based bond brokerage and as the market's premier dealer of government securities. Today, Cantor is a premier global financial services firm. Cantor is recognized for its strengths in the equity and fixed income capital markets, its global distribution model, and for its expanding presence as the leading independent middle market investment bank. Cantor operates trading desks in every major financial center in the world, with offices in over 30 locations around the world and approximately 8,000 employees.

U.S. equity markets

When considering the market structure of the U.S. equities markets, it is important to note that execution quality and access to markets has never been better for investors (large and small). Indeed, in studies conducted by three of the country's leading economists in 2010 and 2013, they concluded:

> Virtually every dimension of U.S. equity market quality is now better than ever. Execution speeds have fallen, which greatly facilitates monitoring execution quality by retail investors. Retail commissions have fallen substantially and continue to fall. Bid-ask spreads have fallen substantially and remain low, although they spiked upward during the financial crisis as volatility increased. Market depth has marched steadily upward. Studies of institutional transactions costs continue to find U.S. costs among the lowest in the world.
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> *Equity Trading in the 21st Century.* James J. Angel, Lawrence E. Harris, and Chester S. Spatt (February 23, 2010).

> Despite many complaints in the national media, various measures of market quality indicate that U.S. markets continue to be very healthy. Trade transaction cost estimates have stayed low and market depth and execution speeds remain high. New findings that measure the total transaction cost of executing very large block orders indicate that improvements in market quality also have benefited large institutional traders.
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> *Equity Trading in the 21st Century: An Update.* James J. Angel, Lawrence E. Harris, and Chester S. Spatt (June 21, 2013).

Nevertheless, a review of market structure and regulatory fine-tuning is necessary in a market as dynamic as U.S. equities. As the Chair and Commissioners have correctly emphasized over the years, the most prudent rulemaking is based on a careful analysis of all relevant facts and empirical data. I urge the SEC to continue to look closely at the statistical evidence of how efficiently the equities markets currently operate; to carefully assess how much value the current system brings to all investors; and, to ensure that any rulemaking withstands a rigorous cost-benefit analysis. I think all would agree that competition, rather than mandated paths to trading, benefits all investors and market participants.

<u>Regulation NMS and Rule 611</u>

Rule 611 was adopted as part of Regulation NMS in 2005. In short, Rule 611 (a/k/a, the "trade-through rule") restricts the execution of trades on one venue at prices that are inferior to protected (i.e., displayed and immediately accessible) quotations on another venue. As such, trading centers are required to have policies and procedures reasonably designed to prevent "trade throughs."

Many have argued that Rule 611 has helped to level the playing field, insuring that better priced quotations in the market are not ignored, as they had sometimes been prior to the Rule's adoption. Thus, Rule 611 has helped to ensure that investors receive the best price on their buy/sell orders.

As the Staff has noted in its Rule 611 Memorandum, some critics have argued that Rule 611 has led to market complexity and fragmentation, effectively dispersing liquidity over multiple venues (including: several exchanges, ATS, dark pools).

One of the key benefits of this Committee is its ability to provide the Commission with diverse perspectives and opinions on these issues. From my perspective, the markets work incredibly well for investors. It is true that with over 50 trading venues, our markets are fragmented. However, fragmentation is not necessarily bad. In fact, in the equities markets, one can easily argue that fragmentation can be good – and, is the result of healthy competition and market participants attempting to meet the ever-changing needs of investors. Importantly as well, technology has helped streamline many of the market's complexities, and made accessing liquidity – wherever situated, easier than ever for investors. Indeed, with the simple click of the mouse, most investors can buy or sell thousands of shares instantaneously – many times at prices slightly better than in the market (i.e., price improvement). And, the execution cost to the retail investor for this service is usually $10 or less in commissions. In short, rigorous competition, technology innovations and good old-fashioned American "know-how" has led to some of most efficient and effective secondary trading markets our country has ever known. Consequently, I trust the Commission will move thoughtfully when considering any proposals to change U.S. equity market structure.[1] Rules that are approved without thorough vetting and analysis, can lead to unanticipated consequences.

<u>ETF trading</u>

ETFs continue to play an important role in both institutional and retail investor portfolios. Indeed, assets invested in ETFs now stand at well over $2 trillion in the U.S. versus $230 billion only ten years ago. In this rapidly growing world of ETFs, there are market structure issues worthy of discussion at future meetings of this Committee.

For example, a recent industry report attempts to explain the correlation between ETF trading and market volatility. The report notes that the pricing of a single stock can be influenced by an actively traded ETF, if that stock has a meaningful weighting in the fund. However, it is

[1]On May 6, 2015, the SEC approved a pilot to assess tick size impact for smaller companies (SEC Release No. 34-74892). The pilot includes at "trade-at" requirement, which is the topic this Committee is considering at its May 13 meeting. While I think the concept of a pilot to test market structure changes has value, some commenters to the proposal have suggested that the pilot may not yield many actionable data points – as the pilot has a number of exceptions and market participants can opt-out of quoting/trading the pilot securities.

axiomatic that any time there is active buying or selling in a stock, its price will necessarily be impacted. Importantly, ETFs continue to provide investors with exposure to sectors and industries they would otherwise be unable to mimic using other financial instruments.

Nevertheless, I do believe there are areas which should be discussed and could lead to improved efficiency in the manner in which ETFs trade. For example, trading of illiquid ETFs. The most active ETFs (SPYs, QQQ, etc.) are very liquid and trade very efficiently. However, as we move into secondary and tertiary ETFs, liquidity starts to dry-up. Of the approximately 1,700 ETFs traded today, roughly 35% trade less than 5,000 shares daily. As more ETFs come to market each day, I think it is imperative to discuss ways to improve the liquidity opportunities for thinly-traded ETFs. One potential path forward is to localize the trading of ETFs below a certain volume level on a single exchange, allowing all market participants to display their quotes on one venue. In this way, liquidity will gather at a single venue, allowing for better price discovery and trading efficiency. Another benefit to localizing trading in a single venue is that it will provide an additional incentive to market makers to add depth to the market and more actively quote the ETFs. In fact, proposals have been recently advanced in other markets addressing similar-type issues.[2]

Another point worthy of future discussion relates to market maker obligations. As a market maker in U.S. equities and ETFs, I believe the Commission should consider improvements to the rules around market makers obligations (e.g., size and depth requirements,

[2] BATS Global Markets (BATS) recently filed with the Commission its "BATS Exclusive Listings Proposal." Although not focused on ETFs, the BATS proposal sought concentrate liquidity in thinly-trades stocks at a single venue to better improve investors' trading experience. Additionally, in connection with recent industry discussions relating to "Venture Exchanges," it has been suggested that a key element to the success of any such initiative will be the ability to concentrate liquidity on the venture exchange.

percentage of time at the inside, etc.). The thesis is simple. We need to have proper obligations and incentives in place to insure market makers remain an integral part of our markets. The liquidity and stability they provide are invaluable to the resilience of the market.

Finally, amendments to Regulation SHO should be considered. Today, market makers generally have two additional days to close out short positions following a fail to deliver (i.e., T+6 instead of T+4). However, even with these two additional days, market makers cannot sell short to buyers in thinly-traded securities, unless they are confident they can cover any short position quickly – which in illiquid securities is not often the case. Additionally, many market makers tend to run balanced trading books, long vs. short. If the market maker's ability to carry short positions is impaired, then its ability to carry a long positons can be similarly impaired, leading to an overall degradation in liquidity. Thus, extending the time market makers have to close out short positions is something worthy of future discussion.

Conclusion

I appreciate the very constructive role this Committee will play in the identification of emerging regulatory issues. I wholeheartedly share the expressed views that important market structure issues must be driven by the careful analysis of empirical data.

Clearly there are many more issues for this Committee to discuss. The time is ripe for a full and robust evaluation of our equities markets, and a proper discourse of what changes may be appropriate. I look forward to a vibrant discussion and debate on these and many other topics this Committee will consider over the months and years to come.

Thank you for the opportunity to contribute to this important dialogue.