Statement of Kevin Cronin
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Thank you, Chairman Schapiro and members of the Commission for the opportunity to speak here today. I am pleased to participate on behalf of Invesco in this roundtable to examine securities market structure issues and particularly issues surrounding high frequency trading. Invesco is a leading independent global asset manager operating in 20 countries with assets under management of approximately $581 billion. Invesco is listed on the New York Stock Exchange.

An efficient and effective trading environment is crucial to our funds' shareholders and to investors at large. We commend the SEC for its continued interest in addressing issues that may impact the fair and orderly operation of the securities markets and investor confidence in those markets.

It is no surprise that high frequency traders and issues connected to high frequency trading have garnered the attention of regulators, Congress, and market participants in general. High frequency trading represents, by most estimates, a majority of the activity in the U.S. equity markets today. The rapid ascendency of high frequency trading has, at the very least, left most with an alarming lack of transparency into their practices and factual understanding of the costs and/or benefits they bring to the equity markets. As such we believe it is appropriate for the SEC and other regulators to ask the hard questions about high frequency trading and its potential impact on market efficiency and fair and equal access to the securities markets.

In the debate that has ensued, there have been many arguments set forth by high frequency trading supporters which highlight the benefits they bring to the market. Generally these arguments have focused on the provision of liquidity, the narrowing of quoted spreads and the evolution of high frequency traders as "modern day market makers." At the same time, several potential concerns associated with high frequency trading have been raised. These include concerns relating to operational, informational and access advantages high frequency traders have relative to many institutional and certainly individual market participants. There also are concerns over the potential for high frequency traders to game investor's interest through their use of high-speed computer programs. These computer programs generate, route and execute, often in microseconds, enormous sums of small orders. They also generate and submit vast amounts of orders that are cancelled shortly after submission. By some accounts as much as 90% of the orders generated by some high frequency traders are subsequently cancelled. At the very least, this activity can create unnecessary market traffic and misleading market "noise." More problematic, certainly to institutions, is that these trading tools and techniques can be employed by high frequency traders to detect the presence of large blocks of securities in the marketplace. High frequency traders can then implement trading strategies to trade with or ahead of those blocks.

Let me elaborate on these potential benefits and concerns to the markets from Invesco's perspective. There is no doubt that any market participant that represents such a significant portion of the daily market volume provides liquidity to the markets and, in turn, facilitates the tightening of spreads. Indeed we believe that some high frequency trading strategies provide segments of the market with valuable liquidity. This benefit highlights the need to be able to clearly distinguish the nature and intentions of high frequency trading participants and their strategies.

We must however take a step back and examine the quality of the liquidity provided by high frequency trading strategies. As an institutional investor executing large orders on behalf of millions of individual investors in our funds, a deep and liquid market is required to efficiently execute orders of significant size. The fleeting liquidity in small size provided by high frequency traders is generally not the optimum type of liquidity that institutional investors seek. The proliferation of high frequency trading therefore has surely contributed to the strategies that funds must employ to seek out meaningful liquidity and may have further exacerbated the fragmentation of our markets. Specifically, funds must now employ dark pools, crossing networks, smart order routers, and other technologies to protect our investors' interest.

We also must look at whether the tightening of spreads in stocks in which high frequency traders are active make up for the potential costs that may be incurred by investors due to some high frequency trading practices. It is important to note that while quoted spreads have narrowed in a segment of the market, they have not narrowed meaningfully in all stocks. It also is noteworthy that the published depth of book in the vast majority of stocks is far less today than it was several years ago. Institutions and other investors have virtually no incentive to publicly display limit orders in most stocks because high frequency traders will either join the quote or jump in front of it. Any examination of the events of May 6th will surely validate the vacuum of liquidity created by the lack of limit orders on the books. We question whether the potential cost efficiencies in the execution of an order generated by tighter spreads offset the potential increase in implicit costs that may be incurred due to, for example, the "trading along" or "penny jumping" of institutional orders that inevitably occurs by strategies used by high frequency traders and other market participants.

Finally, we question whether high frequency traders should be anointed yet as the "modern day market makers" given that it is unclear whether they are truly providing liquidity to the great majority of stocks in the markets. Indeed most of the high frequency trading participants are not broker dealers nor are they registered market makers, meaning that they do not have an obligation to maintain two-sided, fair and orderly markets. This point was made clear on May 6th when many high frequency traders withdrew their liquidity after prices began to decline rapidly. As the SEC noted, these firms may have acted appropriately under current rules. Nevertheless, as I will discuss below, this raises the need to examine on an expedited basis whether obligations should apply to certain liquidity providers such as high frequency traders.

No matter what side of the high frequency trading issue one may take, it is clear that the issues surrounding high frequency trading are ripe for further examination by the SEC. First and foremost, there is an immediate need for more information about high frequency traders and the practices of high frequency trading firms to allow for a better understanding by regulators and investors both about the impact of high frequency trading on the securities markets. Transparency about high frequency firms is needed in several areas, including the manner in which high frequency trading firms trade, any unequal access advantages they may enjoy, any liquidity rebates and other incentives for order flow received, as well as any additional conflicts of interest that may exist concerning their trading and routing practices. We are pleased that the SEC has taken the first step towards increasing transparency regarding high frequency trading by proposing a large trader reporting system that would allow the SEC to better identify large market participants, collect information on their trades, and analyze their trading activity.

Second, we need to recognize that while high frequency traders may have, to some extent, replaced more traditional types of liquidity providers in the equity markets such as market makers, as noted above, they are today not subject to the quoting obligations that in the past had accompanied traditional market makers. To address these issues, we recommend that the SEC examine the trading activity of high frequency trading firms versus the liquidity they provide and consider whether they should be subjected to quoting obligations similar to that of OTC market makers or any other regulations similar to the affirmative and negative obligations of specialists and market makers.

Third, the SEC should examine the strategies employed by high frequency trading firms to determine whether certain strategies should be considered as improper or manipulative activity. Funds have been concerned about certain types of strategies associated with high frequency trading, such as order anticipation or so-called "predatory" strategies, for years. While these strategies may not be in violation of any specific regulation, it does not mean that they are beneficial to the markets or to investors, or that they do not interfere with efficient price discovery. Invesco does not believe that predatory high frequency trading strategies are at all beneficial to the marketplace. Quite to the contrary. This is a zero sum game, every dollar made by high frequency traders using these strategies is a dollar tax to institutional and individual investors.

Fourth, the SEC should act to address the increasing number of order cancellations in the securities markets. At the very least, this is an area worthy of further SEC examination including considering whether requirements should be put in place to restrict certain types of "pinging" in specific contexts, or whether a fee or "penalty" should be imposed on cancelled orders that would discourage the current risk-free use of orders. Pinging orders have increased recently due arguably, in part, to the growth in high frequency trading. We are concerned that much of the order flow from these types of orders only provide "noise" to the markets and can provide a confusing and disjointed indication of the current NBBO. In addition, we are concerned that some of these orders are predicated upon informational advantages about trades or orders or are attempts to ferret out the existence of larger orders being executed in order to trade ahead of these orders.

Finally, the incentives that currently exist for market participants to route orders to particular venues, such as liquidity rebates, and any related conflicts of interest that may arise due to these incentives, need to be examined.

Investors deserve careful examination of the issues surrounding high frequency trading. To the extent that the additional restrictions on high frequency trading can increase investor confidence in the markets, such restrictions should be carefully considered.

Invesco looks forward to working with the SEC as it continues to examine high frequency trading and other market structure issues. I thank the Commission, again, for organizing this roundtable. I look forward to answering your questions.