NASP
National Association of Securities Professionals

February 28, 2023

Chair Gary Gensler
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Gensler:

This letter is submitted on behalf of the National Association of Securities Professionals (NASP), an organization dedicated to supporting people of color and women in achieving inclusion in the financial services industry since our founding in 1985. From a core group of 44 people in attendance at our first organizational meeting, NASP has grown to become a resource for diverse professionals within the securities and investments industry. Headquartered in Washington, D.C., NASP currently has 11 local chapters throughout the United States and boasts a membership of over 500.[1] Today, NASP continues to serve as a resource and a voice for its members at the federal, state and local levels of government working to promote and advance the inclusion of minorities in corporate America, both in the workforce and as a valued customer base.

One of NASP's guiding principles is to support equitable participation and equal opportunity in all business dealings. This includes the diversification of the asset management sector, increased opportunities for securities professionals of color and fair access to investors who have traditionally been shut out of the markets.

With regards to fair access for investors, perhaps at no point in the history of our country have Americans from all backgrounds taken a more active role to improve their financial lives, including participating in the stock market. By most accounts, retail investors today are able to trade and invest easily and at very low cost. The recent gains in retail investor participation, particularly among lower income and diverse Americans should be promoted by the SEC and the industry as a whole.

On December 14, 2022, the SEC issued a set of four sweeping proposals that would alter the foundations of U.S. equity markets.[2] NASP believes that while by no means perfect, the

[1] NASP website, https://nasphq.org/about-us/.
[2] SEC Proposals Related to Market Structure, https://www.sec.gov/newsroom/market-structure-proposals-december-2022.

structure of the stock market currently works extraordinarily well for retail investors,[3] as evidenced by the tens of millions of individuals who have become new investors over the last several years, many of whom are younger and more diverse.[4] While it is difficult to completely and effectively analyze and comment on this complex, lengthy set of rule proposals in the short period of time the SEC has provided,[5] our initial concern is that the SEC's proposals could result in a lack of access to the stock market for underserved demographics which could negatively impact the ability of these individuals and communities to build wealth and, in turn, further widen the existing diversity gap in investing.

As previously noted, we are dedicated to providing opportunities in the financial sector to traditionally excluded groups, including broader access to the financial sector at a fair cost. We are pleased with the trends in this area over the past decade and thank the commission, particularly the Office of Minority and Women Inclusion, the Office of Small Business Capital Formation, the Office of the Investor Advocate and the Commission's Advisory Committees for their focus on opportunity and inclusion.

While NASP strongly supports the SEC's mission to protect investors, including with regard to the prices they receive when they buy and sell stock, NASP fears that these proposals will harm millions of retail investors by making the process of buying and selling stock more difficult and potentially reinstating barriers to entry – both economic and non-economic – that for decades kept younger, lower income, female, and minority individuals out of the market altogether.

I. Increased Participation in the Stock Market Helps Close the Wealth and Investing Diversity Gaps

Participation in the U.S. stock market has been one of history's greatest drivers of wealth creation and prosperity. According to a recent study, U.S. stock market investments increased shareholder wealth on net by $47.4 trillion between 1926 and 2019.[6] Yet this wealth has

[3] Shane Swanson, The Impact of Zero Commissions on Retail Trading and Execution (2020) https://www.greenwich.com/equities/impact-zero-commissions-retail-trading-and-execution ("On the whole, Greenwich Associates finds that retail investors, in fact, have never had it better. Not only have their commission costs come down to zero, but the services they receive have never been more advanced.").

[4] Aaron Brown, Stock Investors are Younger and More Racially Diverse, Bloomberg (Sept. 2020), https://www.bloomberg.com/opinion/articles/2020-09-21/stock-investors-are-younger-and-more-racially-diverse.

[5] SIFMA Letter to SEC (Feb. 2023), https://www.sec.gov/comments/s7-31-22/s73122-20156863-325026.pdf.

[6] Hendrik Bessembinder, Wealth Creation in the U.S. Public Stock Markets 1926 to 2019, Journal of Investing (Nov. 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3537838.

generally been concentrated in the top 10% of the wealthiest U.S. households.[7] Today, about 58% of people in the U.S. report owning stocks (including through retirement accounts) – while this number is significant, nearly half of all American households still do not own any stocks.[8] Simply put, for generations the stock market has been exclusive – reserved for older, less diverse, wealthy Americans.[9] This exclusionary environment has been perpetuated by, among other things, high trading commissions, lofty account minimums, the inability to purchase fractional shares of high-priced stocks, and limited or no access to affordable investment professionals and investment platforms.

Additionally, distrust of financial institutions has been a persistent deterrent to diverse customers and investors. Since 2020, Black Americans who either stopped investing or had never invested were more likely to cite lack of trust in the stock market compared to white Americans (36% vs. 29%) and financial institutions (25% vs. 19%), as well as having had a bad investing experience (15% vs. 9%), as reasons.[10] However, this same survey indicates that "Black investors who do engage with financial institutions say they feel more respected now than in the past."

As a result of these factors, among others, tens of millions of Americans, including many from diverse backgrounds, have been shut out of the financial markets which, in turn, has inhibited their ability to save and build wealth over time. Fortunately, over the last few years, new innovations have begun to create more opportunities for previously underserved communities to participate in our financial system generally and investing specifically. This trend holds promise to begin to remedy persistent economic inequality in the U.S., particularly among diverse demographics.

II. <u>The SEC's Proposed Rules May Harm Retail Investors</u>

When retail investors go to buy or sell stock today, on the whole their experience is smooth, reliable, and consistent. As noted above, it is very low cost and easy to invest today, no matter how much money or experience you have. For example, under the current equity market structure, retail investors can:

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[7] Edward Wolff, Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered, National Bureau of Economic Research (November, 2017), https://www.nber.org/system/files/working_papers/w24085/w24085.pdf.

[8] Jefferey Jones, Lydia Saad, What Percentage of Americans Owns Stock?, Gallup (May, 2022), https://news.gallup.com/poll/266807/percentage-americans-owns-stock.aspx.

[9] 2014 ETF Investor Study by Charles Schwab (June, 2014), https://content.schwab.com/web/retail/public/about-schwab/schwab_etf_investor_study_deck_2014.pdf.

[10] Ariel-Schwab Black Investor Survey (January 2022) ("Ariel-Schwab Black Investor Survey 2022"), https://www.schwabmoneywise.com/tools-resources/ariel-schwab-survey-2022.

- Invest in stocks and other investment products quickly and efficiently anywhere on their mobile phones or laptop computers;
- Easily access educational content to help them make informed decisions;
- No longer need to pay expensive trading commissions, maintain high account minimums, or purchase a full share of expensive stocks that can trade at hundreds or thousands of dollars per share;

NASP recognizes that the current structure of U.S. equity markets is not perfect and can be improved. However, we are concerned that the SEC's rule proposals – particularly regarding changes to minimum pricing increments, retail order competition, and best execution - may be too excessive.

In particular, NASP is concerned that the SEC's proposals will combine to introduce new frictions into the markets that may arm retail investors. Additionally, the added costs and reduced revenues for market intermediaries that could-potentially flow from the SEC's proposals will likely be passed along to these investors, further raising costs to invest, and likely disenfranchising many individuals from participating in the stock market. Given the harm that these proposals may cause to millions of retail investors, NASP believes the SEC should slow down and adopt a more incremental, fact-based approach to addressing market structure issues that accounts for the feedback of all key stakeholders, including retail investors themselves.

III. <u>Conclusion</u>

You and your predecessors at the SEC have long-recognized that our equity markets are the best in the world, and that increased retail investor participation is a good thing.[11] NASP agrees with this assessment and believes that while the SEC must continually work to protect investors, there is cause for serious concern that the SEC's market structure rule proposals may actually reverse the recent influx of younger and more diverse individuals into the stock market. The SEC should avoid this outcome at all costs.

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[11] SEC Chair Gary Gensler, Market Structure and the Retail Investor: Remarks Before the Piper Sandler Global Exchange Conference (June 2022), https://www.sec.gov/news/speech/gensler-remarks-piper-sandler-global-exchange-conference-060822 ("[Technology] has led to some good things. For example, retail investors have greater access to markets than any time in the past.").

Ronald C. Parker – NASP President & CEO

cc: Commissioner Hester Peirce
Commissioner Caroline Crenshaw
Commissioner Jaime Lizárraga
Commissioner Mark Uyeda
Pamela Gibbs, Director of the SEC Office of Minority and Women Inclusion
Robert Marchman, SEC Senior Policy Advisor on Diversity and Inclusion
Cristina Martin Firvida, Director of the SEC Office of the Investor Advocate