



March 30, 2023

Via Electronic Mail

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-30-22; Release No. 34-96494; Regulation NMS: Minimum Pricing
Increments, Access Fees, and Transparency of Better Priced Orders ("Reg NMS
Proposal")

Dear Ms. Countryman,

The World Federation of Exchanges (WFE) welcomes the opportunity to submit comments to the Securities & Exchange Commission on its recent equity market structure proposals. The WFE applauds the Commission for undertaking a thorough review of US equity market structure. The WFE respectfully offers its thoughts only on the proposed amendments to Regulation NMS. This response is intended to complement any representations from our members.

Thank you for your consideration of this matter.

Yours sincerely,

Nandini Sukumar
Chief Executive Officer

cc: Honorable Gary Gensler, Chair
Honorable Hester M. Peirce, Commissioner
Honorable Caroline A. Crenshaw, Commissioner
Honorable Mark T. Uyeda, Commissioner
Honorable Jaime Lizárraga, Commissioner
Haoxiang Zhu, Director of the Division of Trading and Markets

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around \$100 trillion in securities a year and are home to some 60,000 companies, with an aggregate market capitalisation of around \$120 trillion. In addition, the 50 distinct central counterparty (CCP) clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of companies and market participants wishing to raise capital, invest, trade, and manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

Response

Improving market quality and decreasing investor costs are a sustained and on-going trend in the US. America's equity markets have been operating their businesses as robustly as usual in the context of high volatility and record volumes of trading. Given the success of the US markets and the demonstrable and continuing accretion of benefits of the market structure to the end-investor (in terms of lower transaction costs, amongst other things), we believe that any radical change to this market structure must clearly be in the interests of investors and satisfy a cost-benefit analysis. We do not believe these proposed amendments to Regulation NMS meet those conditions and suggest the Commission instead pursue an incremental approach.

Trading is a fundamental source of transparency in capital markets. A key issue for the WFE is a transparent rulebook that delivers an effective and orderly market structure facilitating the matching of buyer and seller. Our members support a number of different mechanism(s) in order to achieve this outcome, but the same basic principle applies consistently: there must be strict rules governing which orders are dealt with, when those orders are dealt with, and how they are dealt with.

Neutrality and fairness across all public market participants are additional core principles of the WFE. In fulfilment of its public good responsibilities, an exchange must remain neutral and fair to all actors. Exchanges may change ownership structure, new entrants may arise as public market participants, but neutrality and fairness remain central principles of the WFE.

In line with these principles, the WFE supports the Commission's proposal to amend Rule 612 and apply a uniform minimum pricing increment for quoting and trading across all NMS equities and NMS trading centres. The WFE shares the Commission's belief that a uniform pricing increment would enhance competition among trading centres by ensuring that competing trading centres employ the same price increment. We also share the Commission's belief that meaningful price improvement opportunities would be preserved, and that increased competition could promote innovation.

There are other principles of the WFE, however, which lead the WFE to suggest that the Commission modify some of its proposed amendments to Regulation NMS. The first principle is transparency. The WFE believes that the regulatory framework of exchanges provides a level of transparency which is often not fully replicated in other types of trading models.

In order to encourage transparency of the displayed orders which often determine trade prices, the WFE suggests that the Commission modify its proposal under Rule 610(c) so that the access fee cap for protected quotes remains unchanged. The WFE shares the belief of the Commission that fees for accessing protected quotations allow for the rebates which provide much needed incentives for market participants to submit displayed orders. The WFE also believes, as discussed more fully below, that the Commission should exercise care in the complexity arising from simultaneously introducing a number of changes to what is already one of the most efficient, transparent, and orderly markets in the world.

The second principle leading to the WFE suggesting that the Commission modify some of its proposals is related to the role that orderly markets serve in furthering the public good. The WFE recognises markets are complex entities where it is all too often difficult for regulators and exchanges to predict outcomes and avoid unintended consequences that might negatively impact the investing public. Few markets are more complex than that for US equities. Furthermore, the

WFE also recognises that Information Technology (IT) is important both to trading and to the communications links between an exchange and its customers. Whatever the level of complexity of the IT necessary to service a given market, all the IT must be operationally robust and secure for the public good to be well served.

In light of the need for extreme care when dealing with complex markets and the associated IT, the WFE suggests that the Commission modify its proposal under Rule 612 and limit the changes to the minimum increment to:

- i) reducing that increment to \$0.005 for those NMS stocks objectively determined to be tick constrained, and
- ii) retaining the current minimum price increment of \$0.01 for those NMS stocks objectively determined not to be tick constrained.

The WFE's proposal would differ from that envisioned by the Commission for the first implementation period by applying to both quoting and trading.

The WFE believes that adopting a single reduction in the minimum price increment for many NMS stocks, as well as applying the minimum price increment to both quoting and trading, would allow for all market participants to better access the numerous changes to equity market structure proposed by the Commission. The WFE cites, but is not commenting on per se, the proposed reduction in round lot size, whether under the proposed Regulation NMS or the MDI Rules, as one example of many of the proposed changes affecting market participants' behaviours. Nor is the WFE ruling out supporting further reductions in the minimum price increment once the Commission and market participants have been able to fully and completely evaluate any changes adopted by the Commission.

Finally, the WFE wishes to take this opportunity to advocate for a transparent, rapid and predictable process for the many rule filings which will be necessary to achieve the Commission's goal under the proposed amendments to Regulation NMS. Exchange markets operate in a highly competitive environment with other trading centres. An opaque, slow, and uncertain rule filing process forces exchange markets to operate at a competitive disadvantage. The current rule filing process faced by exchange markets does not meet the stated finding of "fair competition... between exchange markets and markets other than exchange markets" that guide the Commission's actions. The WFE readily recognises that the rule filing process is part and parcel of exchange markets serving the public good and would welcome the opportunity to work with the Commission on improving the current process.

We conclude by again applauding the Commission for undertaking its thorough review of equity market structure that underlies the current Proposals. We encourage the Commission to extend the minimum price increment under Rule 610 to trading as well as quoting. We also support in principle the Commission's proposal to increase the number of price increments available for tick constrained stocks as identified by the Commission. We only advise the Commission to proceed deliberately with its proposals in order to understand the impacts and unintended consequences. Finally, as strong advocates for transparent markets, we do not support the Commission's proposal to significantly reduce the access fee, and thereby the rebates, used to enhance displayed liquidity in equity markets. The WFE would welcome the opportunity to convene our members to speak to you in further detail about these proposals.