

MEMO# 24384

June 24, 2010

ICI Follow-Up Submission for SEC Market Structure Roundtable

[24384]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 24-10
CLOSED-END INVESTMENT COMPANY MEMBERS No. 33-10
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 18-10
ETF ADVISORY COMMITTEE No. 26-10
SEC RULES MEMBERS No. 55-10 RE: ICI FOLLOW-UP SUBMISSION FOR SEC MARKET
STRUCTURE ROUNDTABLE

The Institute has filed the attached submission with the Securities and Exchange Commission to follow-up on its earlier submission regarding the SEC's June 2 roundtable examining the current U.S. equity market structure. [\[1\]](#) The roundtable focused on issues raised in the SEC's concept release requesting comment on several market structure issues, including market structure performance, high frequency trading and undisplayed liquidity, as well as market structure issues raised by the market events of May 6, 2010.

I. Issues Addressed in SEC Market Structure Concept Release

The letter notes that the recommendations set forth by the Institute in its prior submission for the roundtable and in its comment letter on the SEC's concept release [\[2\]](#) were echoed by many roundtable participants. In particular, the letter notes that several roundtable participants, representing both the buy-side and the sell-side, called for increased transparency regarding specific trading issues such as the order routing and execution practices of broker-dealers and other trading venues.

The letter states that, as expected, there was no agreement on the benefits or costs of high frequency trading to the securities markets. The letter agrees with the statements of many

participants regarding the need for more transparency and an examination of the current rules and regulations surrounding high frequency trading.

Finally, the letter notes that panelists recognized that undisplayed liquidity provides an important mechanism for transactions to interact without displaying the full scale of an investor's trading interest, thereby lessening the cost of implementing trading ideas and mitigating the risk of information leakage. The letter continues to support the SEC's efforts to examine the impact of certain undisplayed liquidity on price discovery on the markets, while balancing the competing goal of protecting fund shareholders and other investors from the effects of information leakage.

II. Market Structure Issues Arising from May 6 Events

The letter states that while the roundtable focused on the three major issues highlighted in the concept release, the events of May 6 and the related market structure issues were a strong underlying theme during the discussions.

The letter notes that the SEC has focused on implementing the stock-by-stock circuit breaker pilot and that the national securities exchanges and FINRA have now filed proposed rules to clarify the process for breaking erroneous trades. The letter urges the SEC to move quickly to address these and other market structure issues raised by the May 6 market events.

Ari Burstein
Senior Counsel - Securities Regulation

[Attachment](#)

endnotes

[\[1\]](#) See Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, dated June 1, 2010.

[\[2\]](#) See Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, dated April 21, 2010.

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