

MEMO# 31173

April 20, 2018

SEC Leadership Outlines Views on Equity Market Structure

[31173]

April 19, 2018 TO: Equity Markets Advisory Committee RE: SEC Leadership Outlines Views on Equity Market Structure

SEC Chairman Clayton recently outlined his views on equity market structure in a speech at the Equity Market Structure Symposium in Chicago.^[1] Brett Redfearn, Director of the SEC's Division of Trading and Markets, spoke after Chairman Clayton and described the Division's equity market structure priorities.^[2] These speeches outline the principles that will guide the SEC's equity market structure agenda, identify three equity market structure rulemakings that Chairman Clayton and Mr. Redfearn hope the SEC will advance in the coming months, and detail three new focus areas for enhancing equity market structure that SEC staff will study through roundtables.

Principled Approach to Equity Market Structure

Chairman Clayton explained that the following five principles guide his approach to equity market structure issues:

- Acting with fidelity to the SEC's mission: (1) to protect investors; (2) to maintain fair, orderly, and efficient markets; and (3) to facilitate capital formation;
- Focusing on the long-term interests of Main Street investors by maintaining a true understanding of how these investors participate in today's markets through both direct investment and by relying on intermediaries like mutual funds, pension funds, and exchange-traded funds;
- Facilitating transparency to empower investors and energize competitive forces that benefit investors;
- Listening to investors and market participants about where Commission rules are, or are not, functioning as intended; and
- Coordinating with other regulators and maintaining open communications with the various stakeholders in the markets the Commission oversees.

Equity Market Structure Rulemaking Agenda

Chairman Clayton explained that the SEC's equity market structure rulemaking agenda will focus on finalizing rule proposals to: (1) conduct a pilot program to test the impact of exchange transaction fees and rebates on the quality of US equity markets;^[3] (2) enhance the transparency of brokers' handling of institutional orders; and (3) promote greater

disclosure by alternative trading systems that offer trading in NMS stocks. Chairman Clayton noted that this rulemaking agenda takes into account the work of the SEC Equity Market Structure Advisory Committee and the Treasury Department's report on the US capital markets.[4]

Equity Market Structure Roundtables

Chairman Clayton outlined three additional equity market structure topics that the SEC staff will study through roundtables. Each roundtable will include a diverse set of expert panelists representative of a broad range of viewpoints and interests. In addition, market participants and other interested parties will be able to submit written comments on the roundtable topics.

Roundtable #1: Market Structure for Thinly-Traded Securities

The first roundtable will occur on April 23 and will address the market for smaller, more thinly-traded companies.[5] Facilitating capital formation and increasing the attractiveness of public markets for smaller companies is one of Chairman Clayton's highest priorities. The goal of this roundtable is to identify steps that would make it easier for buyers and sellers to find each other and consummate trades in less liquid segments of the equity market.[6]

Roundtable #2: Access to Markets and Market Data

The second roundtable—which staff intends to hold later this year—will focus on investor access to markets and market data.[7] This roundtable could address questions raised by differential access to products and services, including whether the Commission's approach to this area is appropriate in terms of market efficiency, liquidity and fairness. Chairman Clayton pointed out that this roundtable could also revisit some of the questions raised with Regulation NMS in 2004 and issues left open by currently pending Commission actions in those matters.

Roundtable #3: Regulatory Approaches to Combat Retail Fraud

The third roundtable will focus on combating retail fraud. This roundtable will build on the discussion of this issue at a recent Commission's Investor Advisory Committee meeting[8] and will explore whether the SEC's regulatory approach appropriately protects retail investors from fraud.

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endnotes

[1] Chairman Jay Clayton, U.S. Securities and Exchange Commission, *Remarks at the Equity Market Structure Symposium Sponsored by the University of Chicago and the STA Foundation* (April 10, 2018), available at <https://www.sec.gov/news/speech/speech-clayton-2018-04-10>.

[2] Brett Redfearn, Director, Division of Trading and Markets, U.S. Securities and Exchange Commission, *Remarks at the Equity Market Structure Symposium Sponsored by the*

University of Chicago and the STA Foundation (April 10, 2018), available at <https://www.sec.gov/news/speech/speech-redfearn-2018-04-10>.

[3] In his speech, Director Redfearn outlined the benefits of the pilot and emphasized that it will test the effects of lower exchange access fee caps and a prohibition on rebates in order to study market impact and provide data on whether and where government-imposed caps should be placed.

[4] For a summary of this report, see ICI Memorandum No. 30905 (October 11, 2017), available at https://www.ici.org/my_ici/memorandum/memo30905.

[5] Securities and Exchange Commission, *Sunshine Act Meeting* (April 16, 2018), available at <https://www.sec.gov/news/openmeetings/2018/ssamtg042318.htm>.

[6] Director Redfearn indicated that one idea that will be discussed is a recommendation that the SEC consider allowing issuers of less liquid stocks to suspend unlisted trading privileges (UTP) until liquidity reaches a minimum threshold. Additionally, there will be a discussion on whether limiting UTP will provide better opportunities for exchanges to innovate and serve thinly-traded securities.

[7] Director Redfearn added a list of issues the Commission believes will be discussed at this roundtable, including: differing views concerning the sale of market data products and services, the impact of many market participants getting data at slower speeds, the extent markets and investors would benefit from greater transparency into the economics of market data distribution by exchanges and securities information processors (SIPs), the pros and cons of the existing single model for SIP data versus a competing consolidator model, and differing views on the governance model behind the operation of SIPs.

[8] Securities and Exchange Commission, *Investor Advisory Committee Meeting* (March 8, 2018), available at https://www.sec.gov/video/webcast-archive-player.shtml?document_id=030818iac.